AVENG

Integrated report 2017

Contents

Welcome to the Aveng integrated report

For more than 125 years, Aveng has evolved in character, capacity and reach and continues to make its mark across the globe. Its origins lie in modest construction projects but Aveng now boasts expertise in steel, engineering, manufacturing, mining, concessions, public infrastructure and water treatment. 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 in East Africa, Southeast Asia and the Middle East. The Company employs some 15 495 people and has an annual turnover in excess of R27 billion (adjusted for impairments and writedowns).

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.

Purpose, mission, vision and values

Purpose
Providing a better life

Mission
We create and deliver infrastructure, industrial and resource solutions

Vision
To be a leader in the delivery of infrastructure, industrial and resource solutions in our core markets

Values

Safety and care	"Home Without Harm Everyone Everyday". We care for the health and wellbeing of our people, the communities we work in and for our environment.
Honesty and integrity	We do what is right — consistently and transparently.
Customer focus	We build relationships by engaging, listening, understanding, collaborating and delivering on our promises with excellence.
Teamwork	We are team players who are committed to the Aveng purpose, vision and values. We respect, cooperate and collaborate with each other, tapping into our rich diversity.
Performance excellence	We are clear about what we need to do to achieve the desired results. We strive for excellence and we hold ourselves and each other accountable.

Aveng 2017 suite of reports

Stay informed

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

About the report

Reporting approach

This report covers the financial period 1 July 2016 to 30 June 2017 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 discussed in this report. Relevant developments between 1 July 2017 and the date of publication are included. 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 23 to 25. 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 16 to 22.

Our suite of reports for the 2017 financial year are identified and explained in the table below for ease of reference.

Assurance and comparability

Changes to Aveng's operational structure are discussed under the section 2017 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.

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

	Integrated report	Audited consolidated annual financial statements
Contents	‣ Concise communication focused on Aveng's material matters, business model, strategy, performance and outlook for sustained value creation.	‣ Audit committee report ‣ Executive chairman's 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	‣ King Code of Governance Principles for South Africa 2009 (King III); preparing for implementation of King IV ‣ International <IR> Framework ‣ Companies Act 71 of 2008 (Companies Act) ‣ JSE Limited (JSE) Listings Requirements.	‣ 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.	‣ External audit opinions
Web link	www.aveng.co.za	

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.

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 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 17 and 18.

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 <IR> Framework.

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

Eric Diack
Executive chairman and interim CEO

Sustainability overview	Corporate governance	Annual general meeting documents
‣ Safety ‣ Health ‣ Environment ‣ Reporting and governance ‣ Risk management ‣ Human resources ‣ South Africa transformation ‣ Corporate social investment ‣ Independent limited assurance report.	‣ Full corporate governance report ‣ King III compliance register.	‣ Our code of business conduct ‣ Letter to shareholders ‣ Shareholders' diary ‣ Salient features ‣ Commentary ‣ Summarised audited consolidated financial statements ‣ Notice of annual general meeting (AGM) ‣ Explanatory notes: AGM ‣ Form of proxy ‣ Notes to the form of proxy ‣ Shareholders' analysis ‣ Corporate information.
‣ Key elements of the above information have been incorporated into the executive and operational reviews of the integrated report.	‣ The full corporate governance report is included in the integrated report.	‣ This statutory information is posted to shareholders prior to the annual general meeting.
‣ Aveng safety, health and environment, and human resource policies and frameworks ‣ Carbon Disclosure Project (CDP), Water Disclosure Project (WDP) and Greenhouse Gas (GHG) protocol ‣ B-BBEE Codes of Good Practice ‣ Construction Sector Charter.	‣ King III ‣ Companies Act ‣ JSE Listings Requirements ‣ Employment Equity Act.	‣ King III ‣ Companies Act ‣ JSE Listings Requirements.
‣ Internal audit ‣ Limited assurance by external audit on selected metrics ‣ B-BBEE verification.	‣ Internal audit ‣ Annual board assessments.	‣ Internal controls ‣ Management and governance oversight.

About Aveng

Key features of 2017

Derisked balance sheet

Following a number of lower than anticipated claim awards, including the QCLNG award, Aveng wrote down R5,1 billion of uncertified revenue.

See pages 28 to 39

New leadership

Aveng appointed a new executive chairman and interim CEO to support management in realising the Group's significant potential.

See page 30

Managed liquidity

Low claim settlements, operational underperformance and poor cash generation placed pressure on liquidity. This required the renewal and extension of the Group's facilities with its major funding banks.

See pages 28 to 39

Strategic review

A robust process has been initiated to determine the strategy that will drive Aveng's medium and long term sustainability.

See pages 27 to 30

Cost reduction

Further substantial restructuring resulted in an 18% reduction in operating expenses to align the Group with current market levels.

See pages 28 to 39

Looking ahead

The Group's contracting order book has grown by 6% to R29,9 billion and is 100% secured at acceptable margins for 2018.

See pages 34, 35 and 39

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.

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.

Reporting on what matters

Salient features

Performance

Financial performance

Adjusted revenue
R27,4 billion
Decreased from R33,8 billion at June 2016

Operating costs decreased by
R503 million (18%)
from R2,8 billion at June 2016

Operating free cash flow
R308 million outflow
Improved from R1 125 million outflow at June 2016

Adjusted operating loss
R113 million
Decreased from R146 million earnings at June 2016

Two-year order book
R29,9 billion
Improved from R27,7 billion at December 2016

Non-financial performance

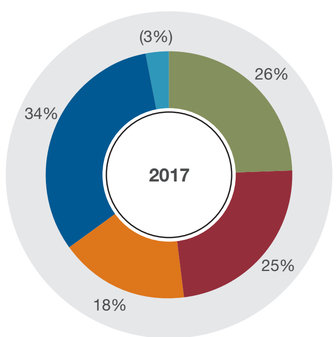
Two fatalities
in circumstances under direct control of Aveng

Performance in the all injury frequency rate (AIFR)
worsened by 21% to 3,28
Longer term improvement trend maintained

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

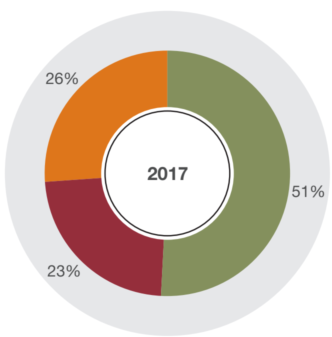
B-BBEE rating
Level 3
(2016: level 2)

Revenue by segment



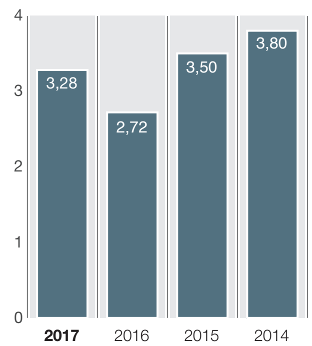
- Construction and Engineering: Australasia and Asia
- Construction and Engineering: South Africa and rest of Africa
- Mining
- Manufacturing and Processing
- Other

Two-year order book by segment



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

AIFR trend (per 200 000 hours)



Group organogram

AVENG

Construction and Engineering: South Africa and rest of Africa

AVENG GRINAKER-LTA

AVENG CAPITAL PARTNERS

- Aveng Grinaker-LTA Buildings and Coastal
- Aveng Grinaker-LTA Civil Engineering
- Aveng Grinaker-LTA Mechanical and Electrical
- Aveng Water

Construction and Engineering: Australasia and Asia

McCONNELL DOWELL

- Australia
- Southeast Asia
- New Zealand and Pacific
- Built Environs

Mining

AVENG MINING

- Aveng Moolmans
- Aveng Shafts & Underground

Manufacturing and Processing

AVENG STEEL

- Aveng Trident Steel

AVENG MANUFACTURING

- Aveng ACS
- Aveng DFC
- Aveng Duraset
- Aveng Infraset
- Aveng Rail

During the year, Aveng disposed of 70% of its shareholding in Aveng Steeledale.

Markets in which we operate

Buildings
Commercial and civil

Roads & Rail
Construction, tunnels and bridges

Oil and gas
Plants and pipelines

Mining
Open cut and underground

Marine
Ports and sea infrastructure

Power
Fossil fuel, renewables and hydroelectric transmissions

Water
Reticulation, effluent and dams

Process & Industrial
Buildings and plant

Our footprint

Market review

Aveng operates mainly in South Africa and other markets in sub-Saharan Africa, Australasia and Southeast Asia. Continued weak market conditions in these markets are affecting the overall business.

Infrastructure investment

South Africa

The local infrastructure market remains subdued, reflecting the marginal economic growth experienced in South Africa. The local construction business, Aveng Grinaker-LTA, continues to operate in a tough market environment with its financial performance adversely affected by low revenue and continued underperformance from a project execution perspective, isolated mainly to the Civil Engineering business unit. Despite current building projects under construction, it is expected that demand for building activity will reduce and shift to smaller projects in the healthcare, student accommodation and other sectors. 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.

Australasia and Southeast Asia

The pace of expansion in the Australia and Asia Pacific construction industry stabilised over the past 12 months. However, substantial improvements are expected over the next five years. The Australian construction industry is expected to grow at a steady rate. 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.

Mining

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

Manufacturing and processing

The South African manufacturing industry is experiencing some headwinds due to weak economic activities and difficult trading conditions. The sector had a 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 significant improvement in the demand for steel. The recently announced safeguard tariffs on imports of certain steel products will improve the local market and should benefit the Aveng Steel operating group during the next financial year.

Africa contributes
59%
of revenue

Australia, New Zealand and Pacific contributes
25%
of revenue

Southeast Asia contributes
9%
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.

Our business model

Strategy

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

CAPITALS

The key resources and relationships Aveng requires to optimally manage the business:

INPUTS

Financial

- Cash flow efficiency and working capital management
- Access to affordable borrowings and credit rating strength
- Shareholder value creation and ability to pay dividends
- Order book quality and growth
- Operating margin

Human

- Effective decisive leadership
- Culture of honesty, accountability and safety
- Building management expertise
- Highly skilled project managers and appropriately skilled workforce
- Subcontractors
- South African transformation needs

Social and relationship

Effective stakeholder engagement and entrenching relationships with:

- Business reputation, brand association and funding
- Shareholders and investor community
- Suppliers and customers
- Employees and trade unions
- Government and regulatory bodies

Intellectual

- Corporate memory, expertise and process knowledge in construction, engineering, mining infrastructure and manufacturing
- Application of current technology and innovation
- Asset management expertise

Manufactured

- Construction and mining fleets
- Manufacturing equipment in steel, concrete products, control systems, valves and rail products and services

Natural

- Raw materials
- Energy needs for manufacturing
- Water use in operations

ACTIVITY

Value creation process

Aveng applies these resources and relationships in an ethical and responsible manner to create value for its stakeholders.

Aveng's primary business activities are:

Construction and Engineering

Dynamic, innovative multidisciplinary engineering, construction, building, concessions and maintenance solutions

- **Aveng Grinaker-LTA**
  Specialised project capability and expertise in a multitude of service offerings
- **McConnell Dowell**
  Mega project capability and expertise, leveraging innovative experience

Mining

Open cut, shaft sinking and underground mining projects, including design, construction, project management, contract mining and operations management

- A leader in open cut mining services in Africa
- One of only four deep-level shaft sinking businesses in the world with capability to sink vertical and decline shafts in all ground conditions at various diameters and depths

Manufacturing and Processing

Manufacture and supply of a diverse range of steel and concrete products, services and engineering solutions, and rail construction maintenance

- Manufacturing brands, patents and know-how
- International sales networks
- Rail construction, maintenance and engineering capabilities
- Automotive steel capability

Additional information on the sectors Aveng serves is available on pages 44 to 67.

Aveng's strategy is being executed in three phases:

- **Recover and stabilise – largely complete**
- **Position for profitable growth – currently under way**
- **Realise growth and sustain profitability – currently under way**

Additional information on Aveng's strategy is available on pages 26 and 27.

SUPPORT PROCESSES

- Risk and commercial management
- Procurement management
- Human resource and leadership management
- Financial reporting, taxation and treasury
- Safety, health and environmental management
- Compliance, legal and governance

OUTPUTS

Key service and product solutions

Engineering (design and construct)

- Buildings
- Rail construction
- Airports
- Bridges
- Roads
- Tunnels
- Marine infrastructure/ports
- Earthworks
- Piling and lateral support
- Pipelines
- MEP installation
- Dams
- Mine shafts and underground development
- Open cut mining
- Oil and gas plants and pipelines
- Automation and control installation
- Water treatment plants

Operate and maintain services

- Facilities management
- Contract mining
- Mechanised track maintenance
- Automation and control support
- Valve repair

Manufactured products

- Asphalt and binders
- Concrete building supplies
- Geotech products
- Rail machinery
- Automation and control systems
- Vertical and horizontal supports
- Valves and submersible pumps
- Pipe fabrication

OUTCOMES

Impact on stakeholders

Financial

- Weak market conditions impacted the business negatively
- Substantially derisked balance sheet
- Current net asset value of R14,56 per share
- Agreement reached with major funding banks to renew and extend facilities
- 18% decrease in operating expenditure
- 6% increase in order book to R29,9 billion

Human

- 40% reduction in the Group's employee complement due to restructuring (since December 2013)
- Two fatalities during the year, however, a longer term improvement trend in safety performance
- Enhanced senior management capacity

Social and relationship

- B-BBEE level 3 *(valid until October 2017)*
- R6,8 million invested in main CSI projects
- Increased engagement with shareholders, employees and labour
- Continuous engagement with all stakeholders
- VRP settlement with SA government

Intellectual

- Brand equity of established businesses, products and process knowledge
- Competitive advantage in water technology and mega project capability and experience
- Innovative building methods reduce cost and increase client value
- Asset management strengthens liquidity

Manufactured

- Deployed idle fleet. New fleet purchased to cater for increased demand
- Optimised manufacturing processes to prepare for profitable growth
- Selective capacity expansions

Natural

- Zero major environmental incidents (2016: two)
- Responsible management of raw material inputs mitigates environmental impact
- Continuous improvement in data accuracy
- Improved scores in Carbon and Water Disclosure Projects

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 was completed during the year and was characterised by the following outcomes:

- Closed or turned around under-performing businesses
- Structurally reduced fixed overheads throughout the Group
- Improved project performance
- Derisked balance sheet
- Reduced claims and litigation risk in South Africa and Australasia
- Completed a number of large-risk projects
- Implemented strategic transactions

Cash flow

The cash flow performance in 2017 was underpinned by the proceeds received from the sale of infrastructure investments. Cash flow in the South African operations was impacted by new capital expenditure at Aveng Mining to meet the demand from existing and new contract customers. Australasia cash flow was impacted by the settlement of the Perth Airport guarantee and claim settlements.

Borrowings

At 30 June 2017 Aveng had R1,1 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 chairman and interim CEO and CFO reports on pages 28 to 39.

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 assesses the leadership and skills requirements at each operating group and develops 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 ongoing 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.

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

A number of our strategic focus areas include assessing the capability and competence of staff in key and critical roles, managing performance, creating winning teams and developing and retaining our people through communication, skills development, remuneration and benefits.

Refer to pages 32 and 33.

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

Social and relationship capital

Aveng recognises that a process of proactive and robust engagement 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 18 to 20.

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 open cut 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 being 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 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. The idle fleet in the mining business has been deployed. The Group invested in certain assets in order to cater for the increased demand experienced as a result of the rally in commodity prices.

Additional insight into our intellectual and operational activities is available in the executive chairman and interim CEO report on pages 30 to 32 and the operational reviews on pages 44 to 67.

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 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.

Board of directors

Appointed: December 2013

Eric Diack (60)

Executive chairman and interim chief executive officer

BAcc, CA(SA), AMP Harvard and UCT

Chairman of Board and investment committee

Member of risk committee and tender risk committee

Appointed: March 2011

Peter Erasmus (64)

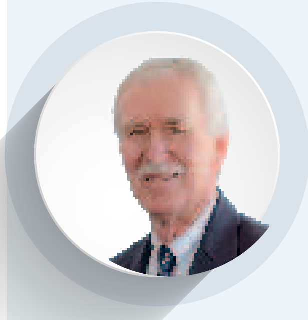
Independent non-executive director

Pr Eng, BSc (Civil) (Hons), BCom (cum laude), MSAICE

Chairman of risk committee

Member of tender risk committee; and audit committee

Appointed: July 2012



Michael Kilbride (65)

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: November 2015

Sean Flanagan (57)

Independent non-executive director

BSc (Building)

Member of the investment committee; risk committee; and tender risk committee

Appointed: September 2009

May Hermanus (57)

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 (64)

Independent non-executive director

CA(SA), BCom (Hons), BAcc

Chairman of audit committee

Member of investment committee; remuneration and nomination committee; and social, ethics and transformation committee

Board and committee composition at 1 October 2017.

Appointed: September 2014

Adrian Macartney (49)

Group chief financial officer

BCom, BCompt (Hons), CA(SA)

Member of executive committee and tender risk committee

Appointed: October 2007

Juba Mashaba (51)

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 (56)

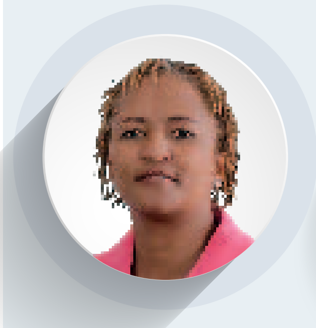
Non-executive director

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 (49)

Lead independent director**
Independent non-executive director

BCom ACCA (UK)

Member of audit committee and social, ethics and transformation committee

Appointed: July 2012

Mahomed Seedat (61)

Independent non-executive director

BEng (Electrical), PMD, GCC

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

*** Effective 23 August 2017.*

Executive directors, key and senior management

Eric Diack (60)
Executive chairman and interim chief executive officer

Appointed to the Aveng Board in December 2013

30 years' industry and related experience

Juba Mashaba (51)
Group executive director

22 years' industry and related experience

Ten years with Aveng

Adrian Macartney (49)
Group chief financial officer

23 years' industry and related experience

Three years with Aveng

Hercu Aucamp (49)
Managing director of Aveng Steel

28 years' industry and related experience

Six years with Aveng

Andrew Langham (56)
Acting managing director of Aveng Grinaker-LTA

28 years' industry and related experience

Three years with Aveng

Executive directors, key and senior management at 1 October 2017.

Scott Cummins (55)
Managing director of McConnell Dowell Corporation Limited

27 years' industry and related experience

One year with Aveng

Solly Letsoalo (55)
Managing director of Aveng Manufacturing

32 years' industry and related experience

Eight years with Aveng

Stuart White (53)
Managing director of Aveng Mining

36 years' industry and related experience

36 years with Aveng

Michael Canterbury (53)
Group executive: Strategy and investor relations

Managing director of Aveng Capital Partners

One year with Aveng

Grant Stock (48)
Commercial executive

22 years' industry and related experience

Two years with Aveng

Michelle Nana (49)
Company secretary

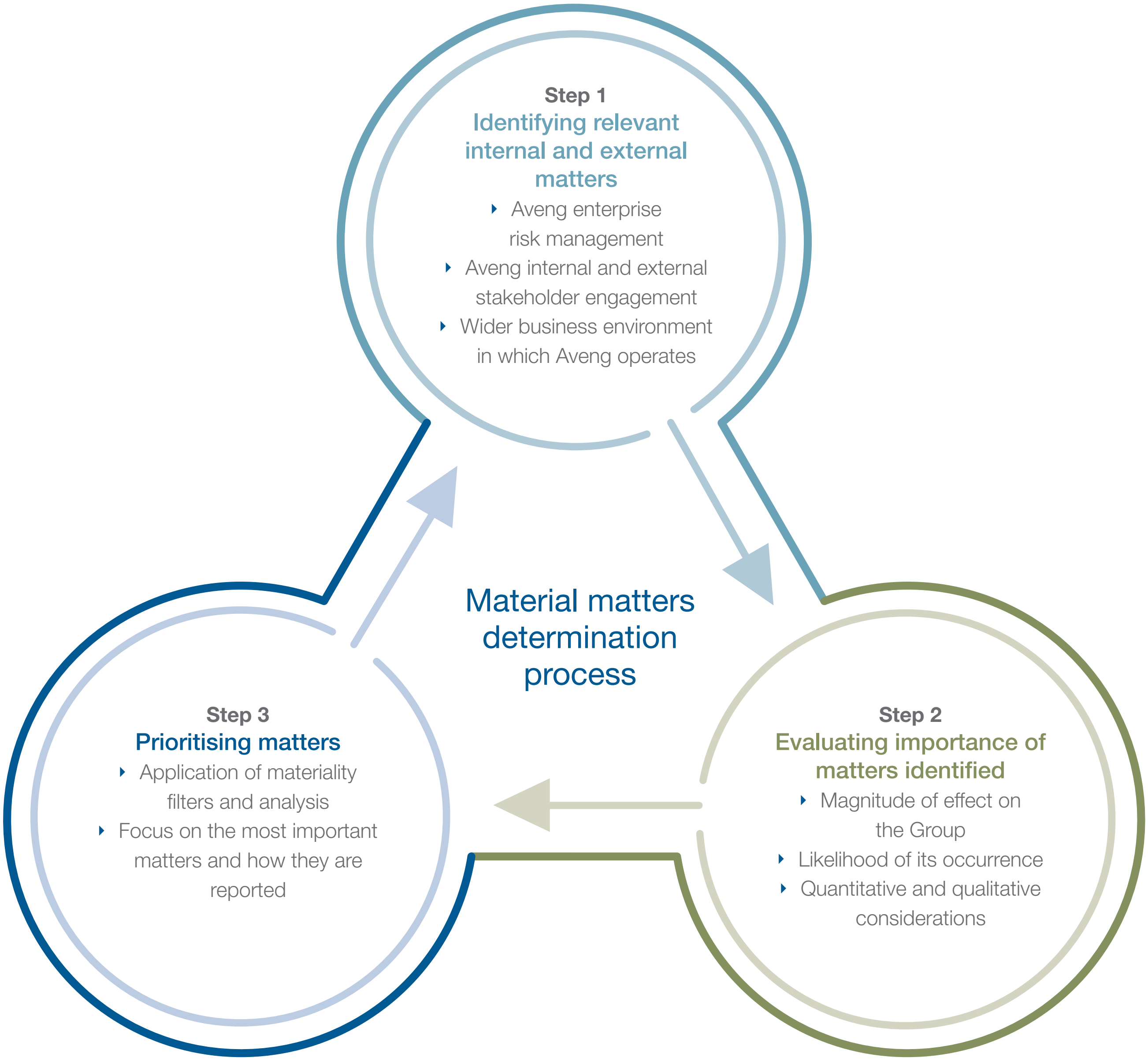
15 years' industry and related experience

Five years with Aveng

Material matters

Aveng has formalised and strengthened its ability to identify, evaluate and manage risks and opportunities in recent years.

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. This is followed by brief commentary on each element. The specific material matters are discussed further on pages 23 to 25.



Identifying relevant internal and external matters

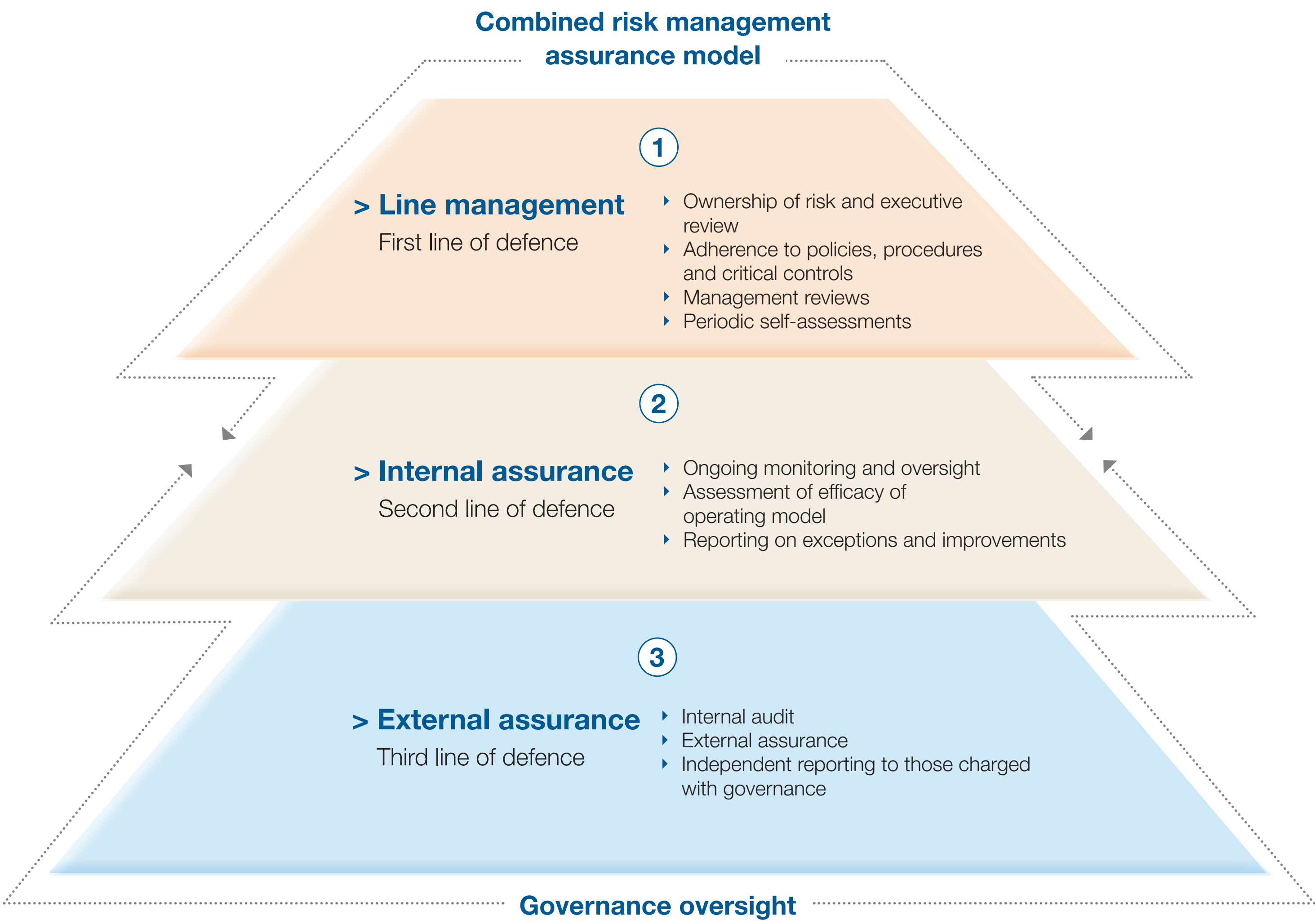
Aveng enterprise risk management

Risk is inherent in all business activities. Our operational performance and the impact this has on our financial position remains 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 retains 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 shifting from the third line and second line in certain areas 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.



Material matters continued

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 timeous 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, including the project start-up process 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.

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). Given that the tender approval process is a critical process in the project lifecycle, this process remains robust with the internal Aveng committee reviewing 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's tender committee (a sub-committee of the Board's risk 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 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 2016)
- Liquidity (number 3 in 2016)
- Operational performance (up from number 4 in 2016)
- Human capital (up from number 6 in 2016)
- Macro-economic environment (down from number 2 in 2016)
- Stakeholder relationship and reputation (up from number 7 in 2016)

Stakeholder engagement

Aveng pursues open, relationship-driven communication with stakeholders to promote confidence, mutual trust and shared growth. The Group recognises that proactive and regular 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 them will enable the Group to develop and sustain positive relationships with all key stakeholders.

Aveng's diversity of stakeholders includes employees, shareholders and the investment community, financial institutions, clients, joint venture partners and subcontractors, suppliers and service providers, trade unions, government and regulators, industry bodies, communities and the media.

As our relationship with each stakeholder group directly impacts the sustainability of our business, continuous engagement takes place across the Group at corporate and operational levels. Aveng carefully considers feedback from stakeholders, and makes every effort to reflect on lessons from the feedback in the Group's future policies and actions, where appropriate.

Our engagement processes seek to ensure that interaction with all stakeholders is effective and ongoing. Various engagement methods are used across the Group, including a stakeholder engagement plan and report-back process that enables operating groups to identify their material stakeholders based on their potential to have a positive or negative impact on the business. The Group's strategy addresses effective engagement with each stakeholder and ways in which we can elevate engagement to build and sustain stronger relationships.

Material matters continued

The table below sets out existing methods of engagement with our key stakeholders, including matters of interest and expectations:

Stakeholders	Methods of engagement	Stakeholder concerns and expectations
Employees South African operations – 12 358 (salaried and waged employees) Australasian and Asian operations – 3 137 (salaried, project and waged employees)	"Roundtable" engagement forums, "town-hall" meetings, one-on-one meetings, performance reviews, leadership conferences, training sessions, including toolbox talks, wellness days, safety walk-abouts, CSI volunteerism campaigns, culture surveys, and various employee publications, including weekly e-newsletters, quarterly printed newsletters, executive management newsletters and the company intranet.	• Employee engagement to enable alignment • Employee ability to give input and influence company strategy and operational performance • Identification of barriers to employee and organisational performance • Talent identification and retention • Cohesive high-performance culture and values
Shareholders, investment community and financial institutions South Africa-based (89%) North America-based (10%) Europe-based and rest of world (5%) Lenders and analysts	Integrated and sustainability reports, trading updates and statements, results presentations and roadshows, AGM, site visits, webcast sessions, investor conference calls, one-on-one meetings with major shareholders and the Aveng website.	• Return on investment • Avoid surprises to the market • Claims recovery status update • Balance sheet strength • Market and performance outlook • Brand positioning • Reputation management
Customers and clients Private and public across all sectors covered in the Group's business model	Customer meetings, site visits, conferences, events and exhibitions, written communication, publications, conference calls, website, branded mailers, contracts and service level agreements.	• Commercial matters or claims • Supplier partnerships to enable award and execution of projects • Supplier support in Aveng's transformation • Reputation management
Contractors, suppliers, service providers and business partners Throughout the value chain across all sectors covered in the Group's business model	One-on-one meetings, workshops, presentations, industry body meetings, events and exhibitions, project steering committees, site and project visits, contracts and service agreements, project process meetings, emailers, conference calls and website.	• 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 • Sustainable business relationships
Trade unions South African operations: NUM, NUMSA, UASA, AMCU and Solidarity Australasia and Asian operations: AWU and CFMEU	Each operating group has its own agreements with its respective trade unions and engages through various methods and at various intervals.	• Tough labour relations environment • Impact of strikes on company sustainability • High propensity for strikes, including unprotected strikes • Impact of changing union profile in South Africa with emergence of new federations
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 (eg SAFCEC-led industry CEO forum), conferences, seminars and presentations, and written communication.	• Compliance with legislation (ie 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
Industry bodies SAFCEC, MBSA and SEIFSA	Representation on key industry bodies, leadership meetings, correspondence, newsletters and sponsorships.	• Influence of industry bodies on public policy
Communities Local communities in which Aveng operates	Each operating group has its own processes with the communities in which it operates and engages through various methods and at various intervals.	• Local employment • Skills development • Preferential procurement • Community upliftment projects • Growing tendency for unprotected strike action on community-related matters • Political contestation impacting labour stability on projects
Media Trade and national media	Media releases, media roundtables, one-on-one interviews and company events	• Regular engagement for relationship building • Communication of company achievements

Additional information is available in our business model and capital capabilities on pages 8 to 11.

Business environment

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

Some of the main risks and opportunities affecting the Group's sectoral and geographic markets are discussed below.

South Africa has lost growth momentum. The economy is in a downward growth trend with a prolonged delay in public sector infrastructure investment. The impact of these factors on the domestic business environment is compounded by political volatility, policy uncertainty, and concerns about governance and the financial position of state-owned entities. These have contributed to the downgrading of key credit ratings to either sub-investment grade or investment grade with a negative outlook. Most of Aveng's key domestic market sectors have been adversely impacted by these factors which are likely to continue influencing investor confidence and decisions in 2018.

To mitigate these external impacts, Aveng continues to seek to:

- diversify into market sectors that offer growth opportunities, including the commercial and industrial building, power, municipal infrastructure and water treatment markets
- expand into geographic markets beyond South Africa
- strengthen engagement with key clients.

Global economic volatility and the prolonged downturn in oil and other commodity 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 some 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.

While investment in the mining and resources sector in Australasia and Asia remains subdued, 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. However, fierce competition for available work remains a characteristic of these markets.

The New Zealand economy has continued to be 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 impact 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% to 3%)
2. Unlikely chance of occurrence (3% to 10%)
3. Possible chance of occurrence (10% to 30%)
4. Likely chance of occurrence (30% to 60%)
5. Almost certain (60% to 100%)

In instances where an issue has already occurred, lessons learnt are undertaken to ascertain the likelihood of an issue reoccurring 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 conducted through various forums, such as the Board and board committee meetings.

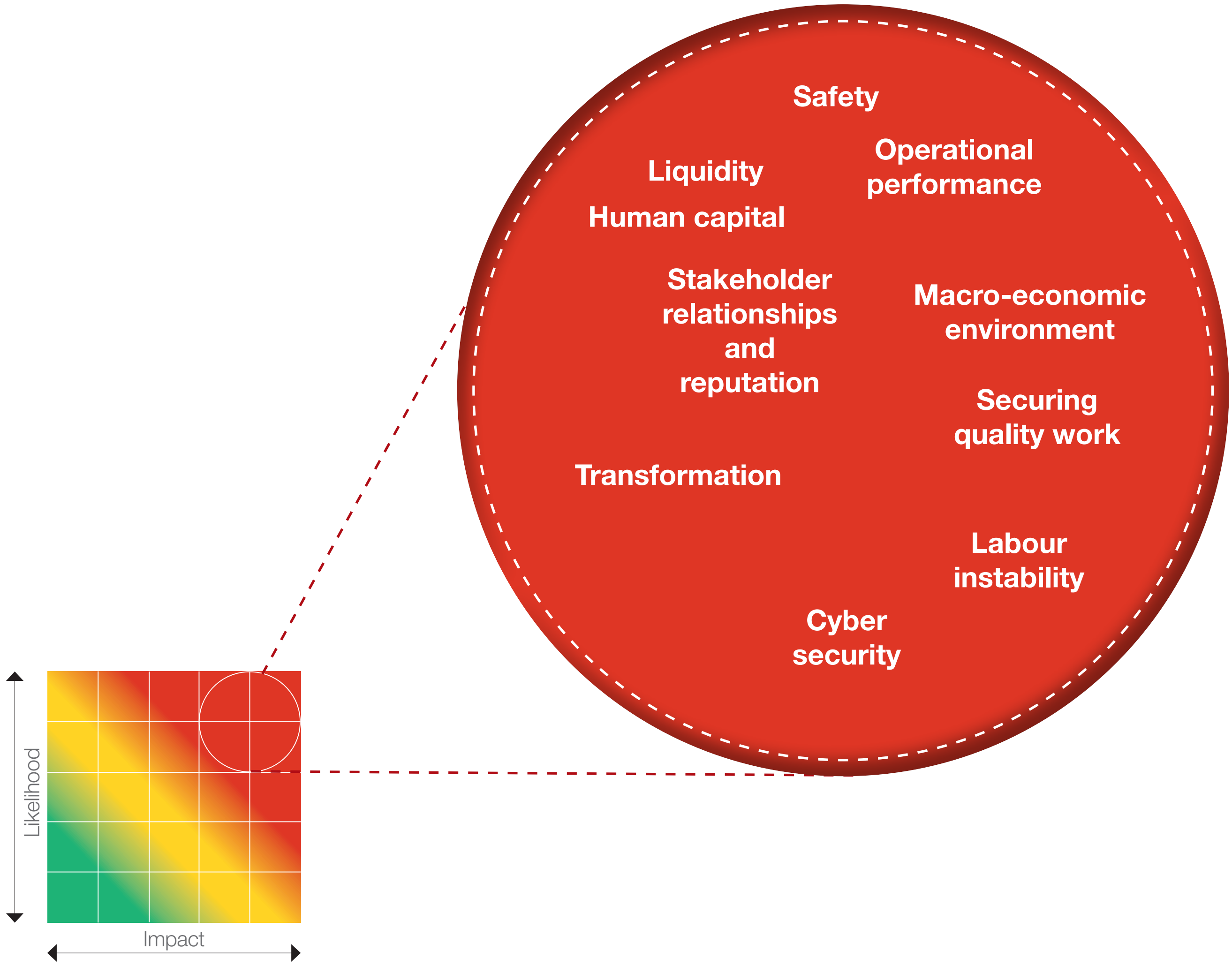
The identified material matters were ranked based on their potential probability of occurring in the Group as well as their potential quantitative and qualitative impact on the Group.

The resultant matters were then plotted on a heat map to demonstrate that only the most material matters emerge and are discussed in further detail on pages 22 to 25.

Material matters continued

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 23 to 25.



Material matters

Our material matters which the Group reviews regularly in line with the recommendations of King IV, and our strategic responses, are discussed on the following pages:

	Material matter	Strategic response
1	**Safety** Aveng operates in a diverse, complex environment and employs a large workforce. The safety of employees is a core value that is integral to the way the Group conducts its business and will not be compromised. Employee safety and wellbeing is critical to Aveng's ability to embed a high-performance safety culture and align with the aspirational goal of "Home Without Harm Everyone Everyday". Unacceptable safety performance is counterproductive and not conducive to the levels of safety commitment and perseverance expected of our leadership and people who work on our sites. Significant safety incidents may attract regulatory sanction with subsequent reputational impact that could influence the Group's ability to procure work.	Aveng has developed a strategic response to safety management based on the safety, health and environment (SHE) Plan on a Page. Key focus areas and objectives are: • Visible-felt leadership: – Engage proactively with employees to positively influence safety culture and eliminate unsafe acts, conditions and behaviours – Verify effective implementation of safety controls on-site and take actions to manage risks to acceptable tolerance levels • Reducing injuries: – Identify workplace hazards and implement effective risk management controls – Conduct job observations by line management, focusing on quality time in the field and timely close-out of deviations – Improve leading indicators, such as near-miss, and potential significant reporting. The quality of investigation outcomes is key to reducing incidents. • Preventing fatalities: – Identify fatal risks and implement preventative and mitigating controls – Implement lifesaving rules with in-field compliance verification systems
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.	• Queensland Curtis Liquefied Natural Gas (QCLNG) pipeline project award was received post-year-end on 24 July 2017. The award to McConnell Dowell was AUD50,5 million (R508 million). Although the award was lower than expected, it has enabled the removal of risk and uncertainty from the balance sheet and reduced its net debt position • The Group's balance sheet has been further derisked by a more conservative approach to the remaining claims in the Group. By taking this view on uncertified revenue the Group has reduced the risk of longer term liquidity volatility • Improved operational performance is expected to address negative cash flow in McConnell Dowell which has placed strain on liquidity • Underlying domestic economic conditions resulted in an increase in working capital with customers paying later and requesting extended payment terms, particularly in the manufacturing and steel sectors • Uncertified revenue within Aveng Grinaker-LTA reduced to under R80 million, lowering the risk of liquidity volatility • Despite continued pressure from banks in South Africa and Australia, Aveng management negotiated extensions on revolving credit facilities for Aveng Limited and working capital facilities for McConnell Dowell, with additional insurance bonding facilities • A financial and commercial committee was established to review all uncertified revenue across the Group

Additional information on Aveng's material matters is available throughout this integrated report and the sustainability overview at www.aveng.co.za

Material matters continued

	Material matter	Strategic response
3	**Operational performance** Operational performance drives the financial performance of the Group. Performance in Aveng Grinaker-LTA Civil Engineering was unsatisfactory while Building, Mechanical and Electrical, and Aveng Water delivered acceptable operating performances. There was sub-optimal performance on a small number of contracts in McConnell Dowell. Manufacturing and Processing operations were negatively impacted by domestic economic headwinds. Aveng Mining maintained sound operational and financial performance.	• Closed out Mokolo Water Augmentation and Majuba rail projects • Corrective action taken in Aveng Grinaker-LTA Civil Engineering • Implemented Learning Management System and commercial master classes at Aveng Grinaker-LTA • Aveng Capital Partners in rebuilding phase • Resetting of McConnell Dowell complete and now moving towards a stabilised operation preparing for growth • Reviewing and simplifying McConnell Dowell's management system (MMS) • Aveng Mining businesses fully integrated • Maintained higher level of focus on tender selection across construction-related businesses • Operational management strengthened at Aveng Manufacturing • Profit improvement programme implemented at Aveng Manufacturing expected to deliver improved financial performance • Continuing focus across Group on improving profit performance in a structured and measured manner
4	**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.	• Strengthened operational management is expected to contribute to general improvement in operational performance • Ongoing management of the top 44 succession model covering key and critical roles • Assessments and capability reviews are used as key criteria to manage current and future capability • Targeted management development interventions implemented to drive improved performance in the business • Ongoing succession planning reviews to eliminate succession risk and grow future talent • Remuneration strategies implemented to ensure retention of high performers • Cross-sectional CEO roundtable engagement with key and critical talent
5	**Macro-economic environment** Aveng operates across different sectors and geographies and is affected by economic dynamics beyond its control. The outlook in South Africa remains subdued, limiting organic growth in the South African construction, manufacturing and steel markets. Steady growth is forecast in McConnell Dowell's markets but the entry of international contractors increases competition, placing pressure on margins. The outcome of the revised Mining Charter remains uncertain.	• Maintained focus on optimisation across the Group to enable quick and appropriate reaction to changing market conditions • Renewed focus on market intelligence and business development • Responding to opportunities in open cut mining • Diversifying into market sectors that offer growth opportunities • Expanding into geographic markets beyond South Africa and strengthening engagement with key clients
6	**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.	• Increased focus on stakeholder and employee engagement, including CEO and MD roundtable meetings • Appointed an experienced group strategy and investor relations executive who will drive the positioning of Aveng with its shareholders and other market stakeholders

Additional information on Aveng's material matters is available throughout this integrated report and the sustainability overview at www.aveng.co.za

	Material matter	Strategic response
7	**Securing quality work** Quality work drives revenue and strengthens the long term sustainability of Aveng as a global company.	• 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 • Maintained focus on key client relationships to promote negotiated contracts with equitable terms • Constant focus on group synergies • Proactive alignment of capacity with opportunities across sectors and geographies • Maintained focus on optimisation across the Group to enable quick and appropriate reaction to changing market conditions • Renewed focus on market intelligence and business development • Responding to opportunities in open cut mining • Order book for contracting businesses 100% secured for 2018 at improved gross margin
8	**Transformation*** Aveng achieved a level 3 B-BBEE rating as measured against the revised codes in October 2017. The Group will be required to further align its B-BBEE performance against the proposed Construction Charter in 2018.	• Settlement agreement with the South African Government concluded • Increased black and black women ownership with the sale of majority stakes in construction and steel businesses • Improved B-BBEE understanding, performance and compliance with management control targets as measured against the national economically active population • Increased emphasis on identifying, training, recruiting and retaining black professionals, with increased focus on black women and people with disabilities • Ongoing support for socio-economic development initiatives. While the Group currently focuses on Mathematics and Science education, it will increase its focus on community development and localised transformation in communities in which it operates • Enhancement and fostering of strategic relationships with key stakeholders • Creation of opportunities and access to Aveng's procurement expenditure for black-owned and black women-owned exempted micro-enterprises and qualifying small enterprises in line with strategy
9	**Labour instability*** Industrial unrest in South Africa results in project delays and disruptions affecting safety, productivity and profitability.	• No major labour relations matters were recorded in 2017 • Implemented a proactive labour relations strategy with allowances in tenders for labour unrest • Strike mitigation plans are in place at each business unit • Increased direct line management engagement with labour and clients, allowing for less reliance on industrial relations professionals • Long term agreements with labour unions have been in place since 2015
10	**Cyber security** Cyber attacks may lead to the distribution of sensitive business information and result in a loss of revenue and earnings. Cyber attacks are becoming more sophisticated and attack techniques are evolving. The target is no longer selected randomly – attacks are targeted, coordinated, and make use of different vectors. The motive has changed, and cyber criminals are no longer seeking notoriety, but rather economic gains.	• Aveng continues to apply a layered defence approach to monitor and detect suspicious network activity and identify and mitigate attacks • Cyber forensic third parties are employed to assist with detection, mitigation and investigation • A security roadmap and measurement matrix has been developed to manage progress and focus areas • Ongoing security awareness campaigns educate employees and build awareness of potential security threats • A URL Targeted Threat Protection with Attachment Threat Protection has been implemented, together with vulnerability management software (Nessus), to proactively monitor vulnerabilities within the Group • Proactive monitoring and prevention of attacks occur at critical perimeter ingress points using Intrusion Prevention System (IPS) with ad hoc in-house penetration testing on new services. Key focus has been allocated to device security patching and network connectivity security • Disaster recovery plans have been reviewed and service level agreements with external suppliers are in place

** Specific to South Africa.*

Strategy

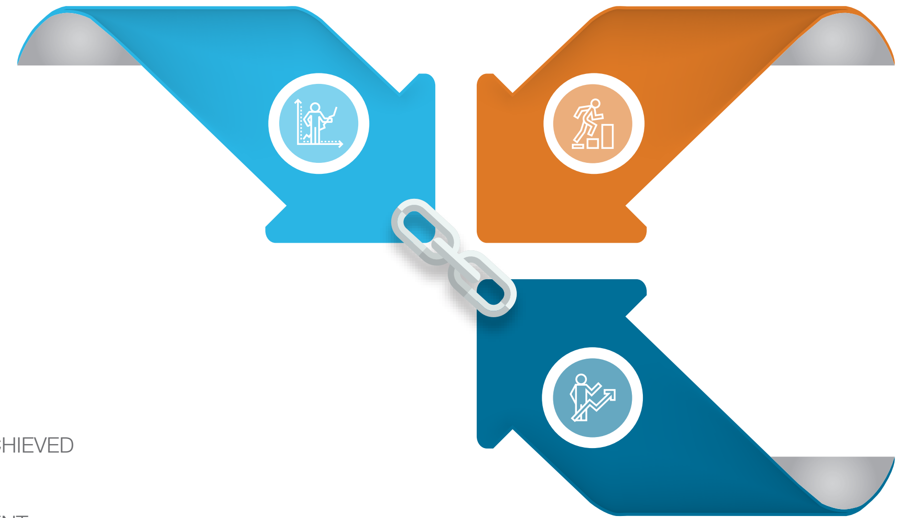
Strategy progress

Aveng continues to execute its strategy in three phases. The short term *recover and stabilise* phase has been completed and progress has been achieved in the *position for profitable growth* phase. Following the announcement of the 2017 results, the Group has embarked on a strategic review which is discussed on page 27. The review will inform the development of a framework which will be used to guide further implementation of the *position for profitable growth* phase as well as the longer term *realise growth and sustain profitability* phase.

Additional information on the execution of the strategy is provided in the looking back and looking forward sections on page 27 and the executive chairman and interim CEO review on pages 28 to 35.

01 Recover and stabilise
2014 – 2016

02 Position for profitable growth
2016 – 2018



MILESTONE ACHIEVED

IN PROGRESS

IN DEVELOPMENT

03 Realise growth and sustain profitability
2018 – onwards

RECOVER AND STABILISE: COMPLETED

- Portfolio confirmed
- Majority of underperforming businesses closed or turned around
- Fixed overheads structurally reduced
- General improvement in project performance
- Balance sheet derisked
- Claims and litigation risk reduced in South Africa
- High-risk projects completed
- Strategic transactions concluded

POSITION FOR GROWTH: FOCUS AREAS

- Targets not fully achieved in phase 1:
  - Restore McConnell Dowell's operational performance and balance sheet
  - Strengthen Aveng Grinaker-LTA's project performance
- Move businesses from return-to-profitability to industry comparable earnings and performance
- Operationalise Aveng Grinaker-LTA empowerment transaction
- Improve balance sheet capacity
- Selective investments in manufacturing and mining capacity

REALISE GROWTH AND SUSTAIN PROFITABILITY: LONGER TERM OBJECTIVES

- Achieve a leadership position in all operating areas through:
  - Customer
  - Delivery
  - Innovation
  - Sustainability
  - People
  - Financial performance
- Expansion into selected sectoral and geographic markets
- Enhance profitability and cash flow

Looking back: Performance against strategy

Key outcomes of the *recover and stabilise* and *position for profitable growth* phases are reflected in the following developments:

Group / operating group	Key outcomes
Group	▸ Balance sheet capacity strengthened ▸ Internal controls for recognition of uncertified revenue strengthened ▸ 30% reduction in the cost base since 2014 ▸ 6% increase in two-year order book to R29,9 billion ▸ Strategic transactions concluded (ACP infrastructure investments, 70% of Aveng Steeledale and 45% economic interest in Aveng Grinaker-LTA to black women-owned business) ▸ Selective investment in new capacity in Aveng Mining and Aveng Manufacturing ▸ Further improvement in first line of defence risk measures and embedding of accountability in all operations to improve project execution ▸ Performance management strengthened ▸ Stronger customer focus and engagement
McConnell Dowell	▸ Restructured under new management ▸ Poor operational performance on historic projects – majority completed and claims settled ▸ Early claims settlements impacted earnings but improved cash flow ▸ 21% reduction in overhead costs ▸ Balance sheet recapitalised after QCLNG award
Aveng Grinaker-LTA	▸ Planned profitability not achieved in 2017 – further intervention to improve performance of Civil Engineering ▸ Mechanical and Electrical, Aveng Rand Roads and Aveng Water profitable ▸ 28% reduction in overhead costs ▸ Most underperforming contracts completed and no major claims outstanding ▸ Empowerment transaction positions Aveng for construction opportunities
Aveng Mining	▸ Consolidated integrated position ▸ Strengthened operational and financial performance ▸ 29% increase in order book to R7,8 billion ▸ Deployed majority of idle fleet
Aveng Manufacturing	▸ Intensive profit improvement programme implemented to address underperformance ▸ Improved bench strength of top management ▸ Selective investment in new capacity
Aveng Steel	▸ Improved working capital management at Aveng Steel – contributed to group liquidity
Aveng Capital Partners	▸ Sold majority of mature assets ▸ Rebuilding portfolio under new management ▸ Opportunities in water, transport, power, property development and student and government accommodation at early stage of evaluation

Looking forward: Strategic review

Given the challenges Aveng experienced in 2017 and the actions that were required to remove risk from the Group's balance sheet to restore liquidity and sustain operations, the Board initiated a strategic review, in conjunction with an independent adviser.

The objectives of the review are to:

- evaluate Aveng's financial and operational structure and determine the key requirements for the Group's medium and long term sustainability
- identify the core operating businesses and assets that will be part of the Group's long term strategy
- recommend a sustainable medium term capital and funding model to address the future funding of McConnell Dowell and the Group's convertible bond which matures in July 2019

The review began in August and will be completed by 30 November 2017, after which the Group will communicate its outcomes.

Non-core assets have been identified for disposal during the 2018 financial year and the proceeds will be used to reduce debt in South Africa and create additional liquidity headroom for operational activities.

Key actions in 2018

- Complete the strategic review, including the operational review, and communicate the outcomes in December 2017
- Implement recommendations of the strategic review
- Continue with disposal of non-core assets
- Appoint a Group CEO
- Maintain a strong focus on cash flow and performance management
- Improve liquidity headroom throughout the year

Additional information on performance against strategy is provided in the executive chairman and interim CEO review on pages 28 to 35, the CFO report on pages 36 to 39 and the operational review on pages 44 to 67.

Performance

Executive chairman and interim CEO review

Creating a foundation for growth

Eric Diack – Executive chairman and interim CEO

2017 was an extraordinarily difficult year for Aveng as the Group faced a perfect storm of challenges which had a material impact on our financial performance. We are acting decisively in addressing these challenges to ensure that the Group is able to operate sustainably and restore shareholder value.

Overview

During the period under review, Aveng reported a headline loss of R6,4 billion attributable to a number of major events which made it necessary to impair assets and write down long-outstanding uncertified revenue of R5,9 billion in order to remove undue risk and uncertainty from the balance sheet.

If the non-cash impairments and write-downs are excluded, the headline loss was R630 million (2016: R299 million loss). This demonstrates a substantial deterioration in the Group's underlying operational performance which required ongoing interventions in most of our operations.

Like many other companies in the domestic construction and engineering sector, Aveng has been severely impacted by the sustained economic downturn in South Africa. This has been exacerbated by the litigious nature of the industry, resulting in protracted and costly processes to conclude long-outstanding commercial claims. During the first half of the year, arbitration rulings for claims associated with the Kenmare Resources and Mokolo Crocodile Water Augmentation (Mokolo) contracts resulted in awards well below our expectation. This precipitated a review of long-outstanding uncertified revenue which resulted in a decision to focus on commercial settlements rather than pursue adversarial, unpredictable, time-consuming and expensive litigation.

Subsequent to the year-end, the long-running dispute and claims associated with the Queensland Curtis Liquefied Natural Gas (QCLNG) pipeline project which McConnell Dowell executed with a joint venture partner, were concluded, resulting in an award of AUD50,5 million (R508 million). This was substantially lower than the value of our claims. The Board decided to write down an amount of R5,1 billion in uncertified revenue (R2,4 billion of which relates to the QCLNG award and R2,7 billion to other McConnell Dowell and Aveng Grinaker-LTA claims) and impair unutilised steel and deferred tax assets. This reduced Aveng's net asset value from R32,53 per share at 30 June 2016 to R14,56 per share but had the necessary effect of derisking the balance sheet. The change in our approach to claims management resulted in the conclusion of six major commercial settlements and arbitration awards after the year-end which contributed to cash inflows and a further reduction in uncertainty, while enabling us to move away from adversarial relationships with our clients.

Liquidity

Aveng's net debt was R1,07 billion at June 2017 (2016: R534 million). Receipt of the QCLNG proceeds improved the Group's cash position by R508 million post-year-end. To preserve liquidity during the year under review we disposed of Aveng Capital Partners' equity interests in the N3 Toll Concession (Steelmetals N3TC) and the renewable energy investments (Blue Falcon and Windfall investments) for R821 million between December 2016 and February 2017.

After the settlement of the QCLNG award, Aveng recapitalised McConnell Dowell, including the settlement of bank debt, to ensure that the business has an adequate capital base and sufficient working capital to support its operational performance.

It was necessary for the Group to enter into discussions with our major funding banks which resulted in the renewal and extension of all of our existing facilities and approval of an additional facility of R150 million. These discussions, together with the finalisation of the uncertified revenue write-downs resulted in a delay in the announcement of our results.

Our focus now is on creating liquidity headroom through operational performance and the sale of non-core assets which I will address in the strategic review section of this report.

Strategy

Strategic review

The Board has initiated a strategic review, in conjunction with an independent adviser, to evaluate Aveng's financial and operational structure and determine the key requirements to ensure the Group's medium and long term sustainability.

The review is a no-holds-barred exercise which began in August and is aimed at identifying the core operating businesses and assets that will be part of the Group's long term strategy. Non-core assets have been identified for disposal during the current financial year and the proceeds will be used to reduce debt in South Africa and create additional liquidity headroom for operational activities. The review will also recommend a sustainable medium term capital and funding model to address the future funding of McConnell Dowell and the Group's convertible bond which matures in July 2019. The review will be completed by 30 November 2017.

Remedial actions to date

In addition to the removal of risk from the balance sheet, Aveng has strengthened its internal controls for the recognition of uncertified revenue, and enhanced its focus on cash flow and performance monitoring and management across the Group. We reduced overheads by 18%, or R503 million, in 2017 to reflect the current operating environment.

A number of measures have been implemented in the operating groups to strengthen their performance.

McConnell Dowell has been fundamentally restructured under a new management team over the past two years. This has involved simplifying the organisation and empowering the business units, strengthening technical and operational capabilities, and embedding a new operating model with strong business and project governance processes and risk management structures to ensure consistency, predictability and transparency in performance across all operations.

A strong focus on building customer relationships and a structured approach to winning quality work contributed to new project awards across the business units during 2017 which were tendered, and are being executed, under this new regime. Overhead costs declined by 20% to AUD79 million.

Aveng Grinaker-LTA achieved a 28% reduction in its overheads. The operating group's organisational design is being reviewed to achieve an efficient and effective operating structure. Major civil engineering projects are under review and a margin enhancement intervention is under way at the Building and Coastal business unit. I will provide a report back on the progress of these interventions after the first half of the 2018 financial year. The Mechanical and Electrical, Aveng Water and Aveng Rand Roads business units are performing to plan.

The bench strength of top management at Aveng Manufacturing has been improved and executive focus is being applied to the profit improvement programme implemented in 2017 to ensure that it yields the identified benefits. The programme is focused on defending and growing market share and improving profit performance through sales force effectiveness, and more efficient production and procurement, supported by selective investment to increase manufacturing capacity. Performance against targets will be reported on at half-year.

Key actions in 2018

We will complete the strategic review, including the operational review, and communicate the outcomes in December 2017.

Short term corrective measures are in place. Non-core assets have been identified and disposal processes will continue. We will be decisive in implementing the more detailed recommendations of the strategic review.

We will maintain our strong focus on improving liquidity headroom throughout the year.

2017 remedial actions

- Addressed uncertified revenue and derisked balance sheet
- Improved process and controls for recognising uncertified revenue
- Reduced overheads by 18%
- Strengthened focus on cash flow and performance management throughout the Group
- McConnell Dowell fundamentally restructured and positioned for growth
- Reduced risk in Aveng Grinaker-LTA by addressing uncertified revenue and major claims
- Aveng Manufacturing profit improvement programme yet to yield full benefits
- Aveng Board and executive management changes

Performance continued

Executive chairman and interim CEO review continued

Board composition

The Board deemed it necessary to appoint an executive chairman with the capacity to support management in realising the Group's significant underlying value as a matter of urgency. I was appointed to this position with effect from 23 August 2017 and relinquished my role as chairman and member of the audit committee.

Philip Hourquebie and Peter Erasmus, both independent non-executive directors were appointed as members of the audit committee, and Philip succeeded me as chairman of the audit committee.

Kholeka Mzondeki, also an independent non-executive director, was appointed as the lead independent director of Aveng.

Kobus Verster resigned as chief executive officer of Aveng with immediate effect on 22 September 2017 and I have assumed the duties of executive chairman and CEO until a new CEO is appointed.

Operational performance

Construction and Engineering: South Africa and rest of Africa

The local infrastructure market remains weak, reflecting marginal economic growth in South Africa and limited investment in major infrastructure programmes. Further north, the momentum of growth experienced by other African economies over the past decade has slowed in response to the global economic downturn.

While private sector investment in large office blocks and shopping malls has reduced, there are opportunities for building contractors in healthcare, student accommodation and other smaller projects. Tenders for large public sector civil engineering and mechanical and electrical projects are rare and those that do come to market undergo lengthy adjudication and award processes. These conditions increase competition for smaller public sector projects in the transport, energy and water sectors.

The adjusted revenue of Construction and Engineering South Africa and rest of Africa, which includes Aveng Grinaker-LTA and Aveng Capital Partners, decreased by 17% to R6,1 billion in 2017, largely as a result of lower work volumes in the Civil Engineering and Mechanical and Electrical business units, and the discontinuation of Aveng Engineering. Adjusted net operating losses increased to R198 million (2016: R148 million), which was largely attributable to under-recovery of a claim for costs incurred on the Mokolo project and non-recurring fair value gains at Aveng Capital Partners in the prior year.

The Building Inland and Coastal business unit successfully completed major projects, including the Sasol head office in Sandton, but reported a loss.

The Mechanical and Electrical business unit achieved a substantial turnaround to profitability as a result of corrective measures applied by new management, including the resolution of contractual disputes associated with energy contracts and a lower overhead cost structure which improved the operating margin. Aveng Water also achieved a turnaround to profitability following the completion of loss-making projects, careful management of costs on the eMalahleni contract and sound operational performance on ongoing operations and maintenance contracts. Poor market conditions combined with underperformance in certain road projects and the Mokolo under-recovery, resulted in a loss for Civil Engineering.

Further corrective measures were implemented at Civil Engineering to stabilise the financial and operational performance of the business unit post-year-end, including the appointment of a new managing director, completion of final accounts on the Majuba Rail and Mokolo projects and a reduction in the cost base.

Aveng Capital Partners (ACP), which manages Aveng's investments in South African toll roads, real estate and renewable energy concessions, reported a decline in net operating earnings to R7 million following the disposal of its operating infrastructure investments. ACP continues to manage the remaining assets in the portfolio, including 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.

The empowerment transaction with Kutana Construction is being implemented to ensure that Kutana Construction becomes actively involved in, and adds value to, the decision-making and operational activities of Aveng Grinaker-LTA.

Although the outlook for its key markets remains weak, Aveng Grinaker-LTA is better positioned to win and effectively execute existing opportunities. The two-year order book of R6,8 billion is 3% higher than in the prior year, with 93% of revenue secured for 2018.

Construction and Engineering: Australasia and Asia

Although the pace of expansion in the Australia and Asia Pacific construction industry stabilised over the past year, the Australian construction industry is expected to continue growing steadily over the next five years to accommodate population growth and increased demand for infrastructure. Economic growth is being driven by significant private and public sector investment in road, rail and power infrastructure projects, in contrast with lower levels of growth in the mining and energy sectors. Southeast Asian economies are also buoyant, with significant opportunities in infrastructure, water utilities and energy projects. New Zealand continues to gain momentum, with government investment in large-scale transport and water projects fuelling growth in the region. These growth markets draw international competitors, resulting in aggressively contested operating environments where resources and profit margins are placed under immense pressure.

The lengthy process of completing loss-making projects and resolving commercial disputes on legacy contracts has resulted in a longer turnaround period than had been anticipated and this is reflected in McConnell Dowell's financial performance for 2017. Adjusted revenue decreased by 25% to AUD912 million due to lower levels of activity as McConnell Dowell shifted its focus to smaller projects with lower tender costs and risk profiles as it worked to restore operational discipline.

Loss-making projects continued to have a heavy impact on earnings and they required a high level of management attention as business units worked to correct underperforming projects and resolve outstanding commercial matters on historic contracts. Their impact negated sound performances on other projects executed in Australia, Southeast Asia and Built Environs. Overall, McConnell Dowell reported an adjusted operating loss of AUD12 million (2016: AUD1,4 million profit).

Substantial progress was achieved in settling the majority of historic commercial disputes, including claims associated with the QCLNG, Ore Car, Halladale Blackwatch and Roy Hill projects, which improved cash flow and strengthened the balance sheet post-year-end.

McConnell Dowell commences the new financial year with a two-year order book of R15,3 billion (2016: R14,8 billion) and 105% of revenue secured for 2018. New or extended awards have been won across the operating group's specialist capabilities and in all of its regions and business units.

These factors, together with improved capacity for project delivery, position McConnell Dowell to return to modest profitability in 2018 and achieve normalised financial performance in 2019.

Aveng Mining

The ongoing pressure experienced by clients during the downturn in the commodity cycle continued to impact mining contractors in 2017, although the market showed early signs of recovery in response to marginal improvements in some commodity prices.

Aveng Mining responded swiftly and effectively to the decline in mining activity it experienced during the 2016 financial year. The operating group stabilised its financial performance and won new work as the market began to recover during the second half of 2017. Five newly awarded open cut mining contracts and contract extensions required the deployment of idle equipment and investment in new fleet. Although the financial impact of the separation agreement concluded with the Bakubung platinum mine is reflected in the 2017 financial performance, the finalisation of the agreement removes significant risk from Aveng Mining. Equipment under-performance had a negative impact on the Tarpako project in Burkina Faso and required the deployment of new drill rigs to the site and engagement with the client to revise the scope and mitigate further losses. The Shondoni mine contract was terminated in April 2017 and arbitration is under way to resolve a dispute with Sasol Mining.

The revenue of Aveng Mining decreased by 18% to R4,1 billion as the new awards commenced late in the financial year and will only start contributing meaningfully to revenue in 2018. Net operating earnings reduced by 21% to R219 million but the margin remained stable at 5% (2016: 6%), due largely to the lower cost base established by the integration of the open cut and underground mining operations.

The newly awarded projects for the Gamsberg zinc mine in South Africa and Karowe diamond mine in Botswana have commenced, while volumes have been increased on some existing contracts.

With a sound financial base, a stronger two-year order book of R7,8 billion, and an improvement in the client, commodity and geographic balance of its portfolio, Aveng Mining is well positioned for growth in 2018.

2018 key actions

- Complete strategic and operational reviews by half-year
- Communicate results and activate interventions immediately
- Implement short term corrective measures and reporting
- Commence disposal of identified non-core assets
- Maintain focus on improving liquidity headroom

Performance continued

Executive chairman and interim CEO review continued

Manufacturing and Processing

Activity in all of the market sectors served by **Aveng Manufacturing** remained weak in 2017, as low GDP growth reduced demand in the rail, mining and infrastructure sectors. Drought across South Africa weakened demand for water valves, and large projects in the oil and gas and rail sectors were delayed as key customers postponed new investment.

The revenue of Aveng Manufacturing declined by 18% to R2,4 billion and operating earnings fell by 47% to R51 million as conditions deteriorated during the second half of the year. New management appointments were made across the operating group and a structured and measurable profit improvement programme was implemented during the year to improve operating profits in 2018.

Following a strategic decision in 2016 to dispose of part or all of **Aveng Steel**, Aveng concluded the sale of 70% of Steeledale to Kutana Steel effective 1 January 2017. Negotiations regarding the sale of Aveng Trident Steel were terminated during the year as Aveng was unable to reach an agreement on acceptable value.

Conditions in the steel market remained challenging and were compounded by low levels of infrastructure investment and strong competition from cheap imports, despite import tariffs imposed in 2016. There was a marginal increase in steel prices during the year and steel volumes stabilised at lower levels, but these factors were insufficient to compensate for structural weakness in the sector. The revenue of Aveng Steel decreased by 6% and included only six months of the trading activities of Aveng Steeledale which was equity accounted from 1 January 2017. Aveng Trident Steel experienced a 10% increase in revenue as a result of higher prices but its earnings were impacted by exchange rate volatility. Cost-saving measures and improved working capital management supported positive cash flow and a significant reduction in the EBITDA loss to R22 million (2016: R106 million loss) for Aveng Steel. Aveng Trident Steel achieved an EBITDA break-even position for the year.

While the combined revenue of the Manufacturing and Processing operating segment declined by 10% to R7,9 billion, the net operating loss declined significantly to R3 million (2016: R70 million loss).

Additional detailed information on operational performance is available in the operational reviews on pages 44 to 67.

Human capital

Our employees determine the Group's ability to achieve its strategic objectives. To address concerns about operational performance in recent years, we reviewed the capability of all managers in critical roles in 2017. The capability review has strengthened the Group's ability to ensure, through its recruitment and promotions, that it has the right people in the right positions with the right skills and capability in all roles identified as critical. It is also contributing to the development of an adequate pipeline of succession talent.

Continuous tracking of performance and measurement of progress against targets was strengthened during the year. In instances where performance was below target, specific interventions were implemented, either through coaching and mentoring, performance enhancement programmes or new appointments.

An outcome of these interventions has been a number of new appointments throughout the Group to strengthen management in critical operational and support roles.

Aveng continuously reviews its portfolio and business offering and consolidates business units to keep them competitive within leaner organisational structures. An unfortunate, but unavoidable consequence of this was a 40% employee headcount reduction to 15 495 across South African and McConnell Dowell operations between December 2013 and June 2017. A 47% decline in revenue over the same period indicates why it was necessary to reduce our headcount.

Throughout this period, the Group continued to invest in the development and upskilling of its employees, particularly in the key skill categories that support the development of a high-performance culture.

Additional information on human resources management is available in the sustainability review at www.aveng.co.za.

Safety

Keeping people safe and healthy in our workplaces remains one of our primary material matters. Aveng has experienced a steady improvement in safety performance in recent years and has recorded increasing levels of management and employee commitment to, and accountability for, safer working environments. Regrettably, this trend was impacted in 2017 by two fatalities (2016: 0) at Aveng workplaces and an increase in the number of injuries, despite a reduction in man-hours worked on fewer projects.

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 to a marine subcontractor. The second incident occurred at an Aveng Mining project in Limpopo on 17 December 2016 when Johannes Qhanya, a jumbo drill operator, fell 14 metres to the bottom of the mine shaft. Mr Qhanya was severely injured and, despite intensive treatment, passed away in June 2017.

The Aveng Board and executive leadership remain concerned about the current levels of unsafe behaviour demonstrated by road users on public road projects involving a number of the Group's operations. As a result, the Group extended its reporting in 2016 to include monitored incidents to ensure that fatal risks associated with circumstances beyond its control, such as accidents on public roads, are duly recognised and properly understood. Efforts to address these risks include increasing safety controls on road closures, enhancing employee vigilance during work activities inside road closures or close to public vehicles, and monitoring employee driver behaviour. Unfortunately, the lives of two Aveng personnel were lost in a single monitored road traffic accident caused by a third party.

On behalf of Aveng, I extend our sincere condolences and deepest sympathies to the families and colleagues of the deceased.

Aveng's all injury frequency rate which reflects safety incidents across the spectrum from first aid to loss of life, worsened to 3,28 (2016: 2,70), relative to our target of 2,50. The Group's lost-time injury frequency rate of 0,30 (2016: 0,22) was also below our tolerance level of 0,20 and reflected an increase in injuries, combined with a decline in man-hours during the year, which worsened the frequency rate.

Aveng has reviewed and revised its safety, health and environmental (SHE) strategy, appointed an experienced SHE executive and strengthened oversight of all SHE matters in the operations. These measures, combined with the extensive expertise of May Hermanus, the chairman of our safety, health and environmental committee, will ensure that we maintain a very high level of focus on creating safer work environments and fulfilling our vision of "Home Without Harm Everyone Everyday".

Additional information on safety, health and environmental management is available in the sustainability review at www.aveng.co.za.

Transformation

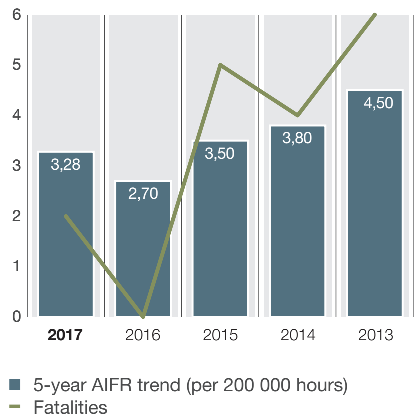
With the majority of Aveng's revenue generated by its South African-based operations, the Group has an interest in, and commitment to, supporting sustainable growth in the domestic economy. To fulfil this commitment, it is necessary for Aveng to be considered relevant, trustworthy and strategically aligned with the expectations of its South African stakeholders.

This commitment to South Africa and the transformation of our domestic business, which underpins the Group's long term sustainability, was an important catalyst in our decisions to negotiate an empowerment partnership for Aveng Grinaker-LTA and participate in the Voluntary Rebuild Programme (VRP) entered into by the government and South Africa's leading construction companies to accelerate transformation in the industry.

Our transformation agenda extends beyond construction into our other South African operations where compliance with the empowerment requirements of public and private sector clients is critical to our competitiveness in the domestic economy. Our disposal of 70% of Steeledale to Kutana Steel was based on the belief that it had a better chance of survival in the domestic market with a majority black women-owned shareholder. Aveng Manufacturing is also entering into partnerships with black-owned businesses and developing black women to participate in its supply chains in order to strengthen its position in the coal and platinum mining and power sectors by complying with their empowerment requirements.

Aveng remains resolute in its compliance with the spirit and intent of the principles of broad-based black economic empowerment (B-BBEE). The Group's South African operations have a level 3 B-BBEE status, valid until 18 October 2017 and measured against the revised B-BBEE Codes of Good Practice. Measurement of our B-BBEE status will revert to the revised construction sector charter once it is gazetted. In an effort to restore a level 2 B-BBEE status, we continue to focus on improved compliance with the management control targets, and we have increased our emphasis on identifying, training, recruiting and retaining black professionals, with priority given to black women and people with disabilities. We continue to support socio-economic development initiatives, with an emphasis on community

Safety performance



Aveng has reviewed and revised its safety, health and environmental (SHE) strategy and strengthened oversight of all SHE matters to create safer work environments and fulfil our vision of "Home Without Harm Everyone Everyday".

Performance continued

Executive chairman and interim CEO review continued

development and localised transformation in the communities within which Aveng operates, and we create opportunities for black-owned and black women-owned emerging micro-enterprises and qualifying small enterprises to access Aveng's procurement expenditure.

Aveng provides one of the most extensive technical training programmes in South Africa, with various training schools offering accredited training, apprenticeship and learnership programmes across a number of construction and mining trades. A total of 543 learners and students are currently enrolled in formal learning programmes across Aveng's South African operations. Of these, 88% are black and 26% female.

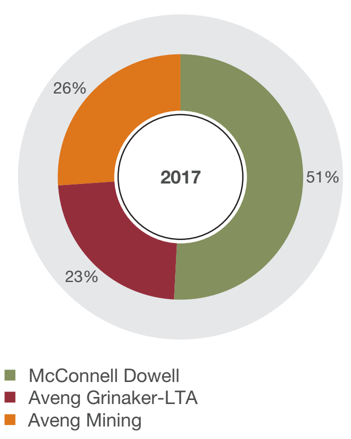
In addition to its training interventions, Aveng has 120 enterprise supplier development beneficiaries in its programme to create long term sustainability for emerging black-owned and black women-owned businesses. Aveng was the first construction business to develop an incubator in partnership with the Department of Trade and Industry to offer 20 emerging construction companies theoretical and practical training in construction skills. The iKhule construction incubator targets youth and black women as its beneficiaries.

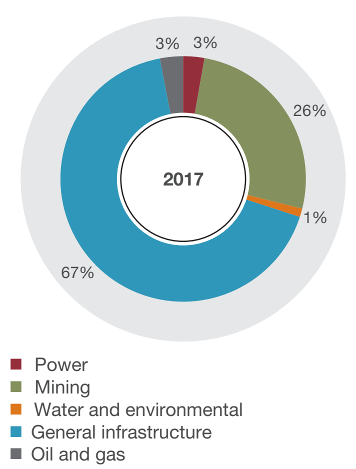
To ensure that it has a pipeline of talent, Aveng offers one of the largest bursary programmes in its sector. There are 61 graduates across Aveng's South African operations, 92% of whom are black and 37% female. The Group currently provides bursaries to 100 external students across various disciplines, 74% of whom are black and 21% female.

Acknowledgement

2017 has been an extremely difficult and testing year for Aveng. I would like to thank my colleagues on the Board for their wise counsel. On behalf of the Board, I would like to express our gratitude to Aveng's customers, suppliers and, most importantly, our leadership teams and employees for their commitment during these difficult times. I would also like to thank our major funding banks for their ongoing support.

Two-year order book by operating group and sector





The Group's two-year order book has grown, with 100% of revenue secured at acceptable margins for 2018. We are now intensely focused on ensuring that our core operations perform to expectation, executing their work to plan, generating positive cash flows and securing additional work for 2019.

Order book

Aveng commenced the new financial year with a two-year order book of R29,9 billion at 30 June 2017 (2016: R28,1 billion), 8% higher than the R27,7 billion reported at 31 December 2016. The geographic split of the order book at 30 June 2017 was 51% Australasia and Asia (2016: 59%), 41% South Africa (2016: 37%) and 8% in the rest of Africa and Indian Ocean Islands (2016: 4%). Contracts in the two-year order book have been concluded at an average gross margin of 8,3% (2017: 7,3%) and the Group has secured 100% of its budgeted revenue for 2018. Securing quality work at acceptable margins for the 2019 financial year remains a priority.

Major new project awards

McConnell Dowell

- Australia: Swanson Dock East rehabilitation, Northern Gas pipeline, Amrun export facility, Murray Basin rail upgrade, Dryandra Road, West Franklin apartments, U2 on Waymouth, Midvale Shopping Centre
- Southeast Asia: Provincial Gas Transmission pipeline project for PTT, Tangguh LNG export facility
- New Zealand and Pacific Islands: Christchurch Southern Motorway Stage 2, Lyttleton Tunnel and five-level crossing upgrades

Aveng Grinaker-LTA

- Leonardo Towers Phase 2, Sandton
- Pampoennek roads project, North West province
- Majuba Power Station coal offloading facility, Mpumalanga
- Observatory Forensics Pathology facility, Western Cape
- Various mechanical and electrical maintenance contracts
- Fincorp office development, Swaziland

Aveng Mining

- Gamsberg zinc mine and Khutala colliery, South Africa
- Karowe diamond mine, Botswana
- Lefa gold mine, Guinea

Outlook

The outlook for the South African economy remains relatively weak with limited prospect of public sector investment in major infrastructure development. Aveng Mining is expected to benefit from growth opportunities in its markets, particularly in open cut mining. The balance of our South African operations will continue to experience headwinds in the domestic construction, manufacturing and steel markets. They will pursue selective opportunities in the mining, building and smaller municipal infrastructure project sectors, and the Group will focus strongly on realising profit enhancement opportunities in these operations.

Our markets in Australasia and Southeast Asia are benefiting from public sector investment in infrastructure, and a fundamentally restructured McConnell Dowell is better positioned to leverage these opportunities, albeit in strongly contested markets.

The Group's two-year order book has grown, with 100% of revenue secured at acceptable margins for 2018. Our core construction and mining order books comprise a sectorally and geographically diverse range of projects, while selective investment has been made to strengthen the competitiveness of the manufacturing businesses. We are now intensely focused on ensuring that our core operations perform to expectation, executing their work to plan, generating positive cash flows and securing additional work for 2019.

The Aveng Board and executive management teams are determined to realise the Group's potential and deliver value for all of our stakeholders.

Performance

Chief financial officer report

Adrian Macartney – Group CFO

Aveng commences the new financial year with a derisked balance sheet and a more certain financial position, supported by a stronger two-year order book of R29,9 billion at 30 June 2017, with 100% of 2018 revenue secured at acceptable profit margins.

Overview

2017 has been a challenging year during which we have focused on removing significant risk from Aveng's balance sheet, securing the Group's liquidity position and enabling Aveng to settle outstanding contract claims in a manner more conducive to sound client relationships.

Financial performance

Aveng reported a headline loss of R6,4 billion and a net loss of R6,7 billion, which included non-recurring impairments and write-downs of long-outstanding uncertified revenue of R5,6 billion.

The basic loss per share was 1 690,6 cents (2016: 25,4 cents earnings per share) and the headline loss per share was 1 625,3 cents (2016: 75,2 cents loss per share).

A better understanding of the Group's underlying performance is gained by excluding the following non-recurring items which occurred during 2017:

- A non-cash impairment of R5,1 billion of uncertified revenue relating to the lower than anticipated QCLNG award (R2,4 billion) and long-outstanding uncertified revenue of R2,7 billion.
- A charge of R150 million relating to work historically undertaken by Aveng EPC for Kenmare Resources. This amount and associated legal costs is the subject of an insurance claim which has not been recognised as an asset.
- A present value charge of R165 million (R255 million payable over 12 years) for the Group's settlement agreement with the South African government.

An impairment charge of R278 million was recognised for underutilised assets in Aveng Steel – primarily property, plant and equipment – due to weak trading conditions in the steel market.

Following the QCLNG award and the write-downs and impairments, 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, a decision was taken to write down R531 million for the expected utilisation of the deferred tax asset within the foreseeable future.

Net finance charges increased by 30% to R444 million (2016: R341 million) largely due to higher utilisation of facilities during the year.

Adjusted segmental performance

Adjusted revenue	2017 Rm	2016 Rm	% change
Construction and Engineering: South Africa and rest of Africa	**6 080**	7 344	(17)
Construction and Engineering: Australasia and Asia	**9 293**	12 828	(28)
Aveng Mining	**4 184**	5 026	(17)
Aveng Manufacturing	**2 444**	2 965	(18)
Aveng Steel	**5 492**	5 829	(6)
Other and Eliminations	**(51)**	(237)	78
	27 442	33 755	(19)
Adjusted operating (loss) / earnings			
Construction and Engineering: South Africa and rest of Africa	**(188)**	(148)	(27)
Construction and Engineering: Australasia and Asia	**(129)**	14	>(100)
Aveng Mining	**219**	276	(21)
Aveng Manufacturing	**51**	95	(46)
Aveng Steel	**(54)**	(165)	67
Other and Eliminations	**(12)**	74	>(100)
	(113)	146	>(100)

Operational performance

The 19% decline in adjusted revenue to R27,4 billion (2016: R33,8 billion) reflects the impact of weaker market conditions on all of the Group's South African operations and lower activity levels in McConnell Dowell in Australia. Aveng Manufacturing recorded a significant decrease in revenue during the final quarter of the financial year, while Aveng Mining experienced marginal growth during the second half, following improvements in some commodity prices. While not evident in 2017, the benefits of new awards and increased volumes secured by Aveng Mining are likely to materialise during 2018.

The adjusted gross margin of 7,2% (2016: 7,4%) remained largely in line with the prior year, reflecting more selective tendering processes and a pleasing 18% (R503 million) reduction in operating expenses due to cost cutting across the Group.

The adjusted net operating earnings decreased from a profit of R146 million in 2016 to a loss of R113 million. Aveng Grinaker-LTA and Aveng Capital Partners reported an increase in adjusted operating loss to R198 million (2016: R148 million). However, if fair value gains from Aveng Capital Partners assets are excluded from the 2016 result, the 2017 performance of Aveng Grinaker-LTA shows an improvement over the prior year.

McConnell Dowell reported a disappointing loss of AUD12 million (2016: AUD1,4 million profit) as it continued to incur operational losses on a number of projects throughout the year.

These have been largely addressed by the interventions referred to in the executive chairman and interim CEO review on page 29.

A number of specific impacts contributed to the Group's operating losses, including:

- resolution of some major commercial claims at Aveng Grinaker-LTA relating to the Mokolo Water Augmentation project and Majuba Rail contracts
- operational underperformance in the Civil Engineering business unit and disappointing performances on certain Building and Coastal contracts
- completion of work and commercial matters related to legacy and historic projects in McConnell Dowell
- a decline in the performance of Aveng Manufacturing during the second half of the year
- separation costs relating to the Aveng Mining Wesizwe Bakubung mine contract and poor performance on a project in Burkina Faso.

These impacts were partially offset by:

- savings of R503 million in overhead expenses throughout the Group, resulting in an 18% reduction in operating costs
- improved performance in the open cut mining operations of Aveng Mining during the second half of the year
- continued improvement in the operating performance of Aveng Steel due to efficiencies and improved margins.

The adjusted headline loss increased to R630 million (2016: R299 million).

Additional detail on operational performance is available in the executive chairman and interim CEO review on pages 30 to 32 and the operational reviews from page 44 to 67.

Performance

Chief financial officer report continued

Liquidity

Following a number of transactions concluded in 2016 to preserve Aveng's liquidity, additional measures were applied in 2017 to protect the Group's financial position, including:

- sale of infrastructure investments in the Aveng Capital Partners investment portfolio for R821 million
- sale of a 70% interest in Aveng's Steeledale business to black women-owned business, Kutana Steel, for R252 million; cash proceeds of R50 million were received during the period
- cash generation of R59 million by Aveng Steel due to improved working capital management.

However, these inflows were offset by:

- significant cash outflows associated with McConnell Dowell's completion of large projects and commercial matters associated with legacy and historic projects
- cash outflows related to losses incurred on Aveng Grinaker-LTA projects during the second half of the year and once-off retrenchment costs in the Civil Engineering business unit
- net capital expenditure of R640 million
- net finance charges of R316 million
- taxation of R182 million.

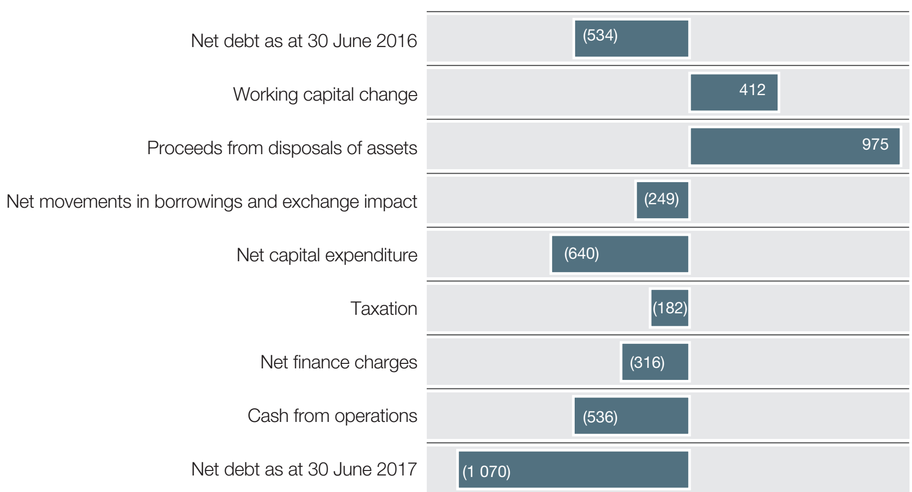
Operating free cash flow amounted to an outflow of R308 million.

Cash and bank balances decreased to R2 billion (2016: R2,4 billion), resulting in a net debt position of R1,07 billion at 30 June 2017 (31 December 2016: R937 million; 30 June 2016: R534 million). Aveng had unutilised facilities of R1,4 billion at year-end and a liquidity requirement of R278 million, which provided liquidity headroom of R1,1 billion.

The Group intends to reduce debt and increase its liquidity headroom by lowering finance charges and utilising the proceeds from the planned disposal of non-core assets.

The process of derisking the balance sheet resulted in a 71% decrease in uncertified claims compared to December 2016 and a 53% reduction in total amounts due from contract customers.

Liquidity (Rm)



Uncertified revenue and claims

During the year, the Group conducted a review of uncertified revenue which included an overall assessment of the operations with uncertified revenue – McConnell Dowell, Aveng Grinaker-LTA and, to a lesser extent, Aveng Mining – and a more detailed investigation into specific contracts, including their costs to date, likely cost to completion, performance against these costs, expected revenue, associated claims and the Group's commercial consideration for outstanding claims which were in various processes of mediation, arbitration or ultimately litigation. Taking all of these factors into consideration, we determined an achievable near term settlement value for each contract, which resulted in a R2,7 billion non-cash impairment on uncertified revenue. This, combined with the QCLNG impairment, amounted to write-downs of R5,1 billion of uncertified revenue.

This process removed significant risk from the balance sheet. At 30 June 2017, the Group's uncertified claims had decreased by 71% from R6,3 billion in December 2016 to R1,8 billion, contributing to a 53% reduction to R4,5 billion in total amounts due from contract customers (non-current and current). Amounts due from contract customers include the AUD50 million (R508 million) QCLNG award which was received post-year-end.

Two significant McConnell Dowell claims associated with the Gold Coast Rapid Transit and Perth Airport contracts, remain outstanding. While both projects have been completed and pose no further execution risk, these claims require resolution and recovery.

It is worth noting that we have experienced a steady decline in advance payments from customers from R308 million in June 2016 to R146 million in June 2017 – this appears to be a trend throughout the construction industry.

Uncertified revenue and claims

	June 2017 Rm	December 2016 Rm	June 2016 Rm
Uncertified claims and variations	**1 760**	6 283	6 584
Contract contingencies	**(701)**	(286)	(390)
Contract and retention receivables	**3 411**	2 488	3 272
Provision for contract receivables	**(2)**	(2)	(2)
Amounts due from customers	**4 468**	8 483	9 464
Progress billings received	**(1 205)**	(1 127)	(1 014)
Amounts received in advance	**(146)**	(211)	(308)
Amounts due to customers	**(1 351)**	(1 338)	(1 332)
Net amounts due from contract customers	**3 117**	7 145	8 142
Foreign exchange impact	**(462)**	(639)	910

	C&E SA and ROA	C&E Australia and Asia	Mining	Manufacturing and Processing	Other and Eliminations	Total
2017 financial year						
Contract claims	**59**	**1 266**	**153**	**29**	**(358)**	**1 149**
Uncertified variations (timing)	**141**	**320**	**145**	**5**	**–**	**611**
Uncertified claims and variations	**200**	**1 586**	**298**	**35**	**(358)**	**1 760**
2017 half year						
Contract claims	299	5 130	139	33	–	5 601
Uncertified variations (timing)	141	228	179	25	109	682
Uncertified claims and variations	440	5 358	318	58	109	6 283
2016 financial year						
Contract claims	227	5 350	–	–	24	5 601
Uncertified variations (timing)	292	185	413	76	17	983
Uncertified claims and variations	519	5 535	413	76	41	6 584

Outlook

Aveng commences the 2018 financial year with a more certain financial position and a stronger two-year order book of R29,9 billion at 30 June 2017. Compared to 31 December 2016, this reflects a 3% increase in McConnell Dowell's order book to R15,3 billion, a 2% increase to R6,8 billion for Aveng Grinaker-LTA and a 29% increase to R7,8 billion for Aveng Mining. 100% of the Group's revenue is secured at an average gross margin of 8,3% for 2018.

As we implement our strategy to restore operational performance and profitability, we will maintain a strong focus on cost management, profit enhancement, sound project execution and improvement in liquidity headroom.

Performance

Management financial review and key ratios*

Consolidated statement of financial position	2017 Rm	2016 Rm	2015 Rm	2014 Rm	2013 Rm
Investment property	**–**	–	–	86	71
Property, plant and equipment	**4 611**	4 843	5 626	6 346	6 789
Goodwill and other intangibles	**613**	667	681	984	1 609
Equity-accounted investments	**334**	100	151	306	144
Infrastructure investments	**265**	177	778	–	–
Financial investments	**–**	–	–	190	70
Deferred taxation	**1 290**	1 858	1 580	1 403	1 347
Inventories	**2 085**	2 211	2 529	2 793	2 780
Receivables**	**6 371**	11 542	12 759	14 137	12 030
Cash and bank balances	**1 996**	2 450	2 856	4 136	4 120
Assets held for sale	**122**	1 484	559	607	–
Total assets	**17 687**	25 332	27 519	30 988	28 960
Total equity	**6 058**	13 556	12 998	13 396	13 307
Deferred tax liabilities	**319**	266	221	257	319
Payables***	**8 090**	8 279	11 735	14 271	12 920
Payables other than contract-related	**154**	–	102	197	283
Borrowings and other liabilities	**3 066**	2 984	2 463	2 867	1 531
Bank overdrafts	**–**	–	–	–	600
Liabilities held-for-sale	**–**	247	–	–	–
Total liabilities	**11 629**	11 776	14 521	17 592	15 653
Non-controlling interests	**8**	37	23	11	12
Total equity and liabilities	**17 687**	25 332	27 519	30 988	28 960

** *Including trade and other receivables, amounts due from contract customers and derivative instruments.*
*** *Including trade and other payables, amounts due to contract customers, derivative instruments, taxation payables and employee-related payable.*

Working capital	2017 Rm	2016 Rm	% change
Inventory	**2 085**	2 211	(6%)
Trade and other receivables	**1 840**	2 058	(11%)
Amounts due from contract customers	**4 468**	9 464	(53%)
Current trade and other payables	**(5 909)**	(5 886)	–
Amounts due to contract customers	**(1 351)**	(1 322)	2%
Net working capital	**1 133**	6 525	<100

Uncertified revenue and claims	2017 Rm	2016 Rm
Uncertified claims and variations	**1 760**	6 584
Contract contingencies	**(701)**	(390)
Contract and retention receivables	**3 409**	3 270
Amounts due from customers	**4 468**	9 464
Progress billings received	**(1 205)**	(1 014)
Amounts received in advance	**(146)**	(308)
Amounts due to customers	**(1 351)**	(1 322)
Net amounts due from contract customers	**3 117**	8 142
Foreign exchange impact	**(462)**	910

* *This financial information is presented based on management's analysis of the performance of its business and does not conform to IFRS in its entirety.*

Consolidated statement of comprehensive income	2017 Rm	2016 Rm	2015 Rm	2014 Rm	2013 Rm
Adjusted revenue	**27 442**	33 755	43 930	52 959	51 704
Adjusted gross earnings	**1 982**	2 495	2 364	3 635	3 471
Other earnings	**206**	591	471	302	471
Operating expenses	**(2 305)**	(2 808)	(3 063)	(3 171)	(3 274)
Earnings / (loss) from equity-accounted investments	**4**	(132)	(60)	33	(12)
Adjusted operating (loss) / earnings	**(113)**	146	(288)	799	656
South African government settlement	**(165)**	–	–	–	–
Adjusted net operating (loss) / earnings	**(278)**	146	(288)	799	656
Impairment of claims	**(5 117)**	–	–	–	–
Impairment on non-financial assets	**(278)**	(333)	(621)	(831)	–
Profit on sale of subsidiary	**–**	–	777	–	–
Profit on sale of property, plant and equipment	**4**	592	–	–	–
Operating (loss) / earnings before financing transactions	**(5 669)**	405	(132)	(32)	656
Finance earnings	**198**	211	177	136	132
Convertible bond	**(237)**	(225)	(167)	–	–
Other finance expenses	**(405)**	(327)	(316)	(319)	(162)
(Loss) / earnings before taxation	**(6 113)**	64	(438)	(215)	626
Taxation	**(626)**	(129)	(80)	(161)	(167)
(Loss) / earnings for the period	**(6 739)**	(65)	(518)	(376)	459
Other comprehensive earnings / (loss) for the period:					
Exchange differences on translation of foreign operations	**(773)**	786	(372)	402	196
Movement in insurance and other reserves	**–**	–	28	65	(2)
Total comprehensive earnings / (loss) for the period	**(7 512)**	721	(862)	91	653
(Loss) / earnings for the year attributable to:					
Equity-holders of Aveng Limited	**(6 708)**	(101)	(460)	(381)	466
Non-controlling interests	**(31)**	36	(58)	5	(7)
(Loss) / earnings for the period	**(6 739)**	(65)	(518)	(376)	459
Total comprehensive (loss) / earnings attributable to:					
Equity-holders of Aveng Limited	**(7 481)**	676	(804)	86	659
Non-controlling interests	**(31)**	45	(58)	5	(6)
	(7 512)	721	(862)	91	653
Determination of headline (loss) / earnings					
(Loss) / earnings for the year attributable to equity holders of Aveng	**(6 708)**	(101)	(460)	(381)	466
Headline earnings adjustment	**259**	(198)	(118)	802	–
Headline (loss) / earnings	**(6 449)**	(299)	(578)	421	466

2017 events

Performance

Management financial review and key ratios*

Consolidated statement of cash flows	2017 Rm	2016 Rm	2015 Rm	2014 Rm	2013 Rm
Cash from operating activities	**(622)**	(1 834)	(1 535)	(310)	(285)
Cash from investing activities	**314**	709	508	(1 088)	(1 244)
Operating free cash flow	**(308)**	(1 125)	(1 027)	(1 398)	(1 529)
Cash from financing activities	**(23)**	384	(57)	1 323	314
Net decrease in cash and bank balances before foreign exchange movements on cash	**(331)**	(741)	(1 084)	(75)	(1 215)
Returns and productivity					
Net (debt) / cash position	**(1 070)**	(534)	393	1 269	2 366
CPI (%)	**1,9**	4,7	4,7	6,6	5,5
Current ratio (times)	**1,1**	1,8	1,5	1,3	1,3
Dividend cover (times)	**–**	–	–	–	–
Effective tax rate before impairment (%)	**(10,2)**	201	(54,3)	26,1	26,7
Margin – gross (%)	**6,7**	7,4	5,4	6,9	6,7
– net operating earnings (%)	**(1,6)**	0,4	(0,7)	1,5	1,3
Property, plant and equipment – expansion capital expenditure	**135**	175	175	384	459
– replacement capital expenditure	**793**	319	649	677	925
Operating free cash flow before expansion capital expenditure (Rm)	**(102)**	(950)	(852)	(1 014)	(1 070)
Headline earnings growth (%)	**(<100)**	48,3	(<100)	(9,7)	(5,9)
Return on invested capital (%)**	**(65,8)**	0,7	(1,9)	4,8	3,4
Return on equity (%)	**(100,9)**	(2,2)	(4,5)	3,1	3,5
Number of employees at year-end	**15 495**	16 948	25 466	31 768	28 296

***Comparatives restated in line with Aveng definition for return on invested capital.*

Operating free cash flow	2017 Rm	2016 Rm	% change
Construction and Engineering: South Africa and rest of Africa	**422**	364	16
Construction and Engineering: Australasia and Asia	**(583)**	(2 583)	(77)
Mining	**(41)**	363	>(100)
Manufacturing	**(76)**	(29)	>(100)
Steel	**59**	304	(81)
Other	**(89)**	456	>(100)
Total	**(308)**	(1 125)	>(100)

Net cash	2017 Rm	2016 Rm
Cash	**1 996**	2 450
South African operations	**759**	1 009
McConnell Dowell	**1 237**	1 441
Borrowings	**3 066**	2 984
Convertible bond	**1 823**	1 731
South African operations	**322**	348
McConnell Dowell	**921**	905
Net (debt)	**(1 070)**	(534)

Liquidity	2017 Rm	2016 Rm
Cash	**1 996**	2 450
Less:		
Joint operations	**(625)**	(696)
Advance payments	**(146)**	(308)
Short term facilities	**(703)**	(768)
Minimum working capital requirements	**(800)**	(900)
Liquidity requirement	**(278)**	(222)
Unutilised facilities	**1 356**	1 935
Liquidity headroom	**1 078**	1 713

** This financial information is presented based on management's analysis of the performance of its business and does not conform to IFRS in its entirety.*

Share performance (cents per share)	**2017 Rm**	2016 Rm	2015 Rm	2014 Rm	2013 Rm
Headline (loss) / earnings	**(1 624,7)**	(75,2)	(144,3)	112,5	124,6
Diluted headline (loss) / earnings	**(1 603,3)**	(74,4)	(143,8)	104,7	115,9
(Loss) / earnings	**(1 670,6)**	(25,4)	(114,8)	(101,9)	124,6
Diluted (loss) / earnings	**(1 668,2)**	(25,1)	(114,4)	(94,8)	115,9
Cash generated by operating activities	**(118)**	(440)	(368)	(74)	77
Net asset value	**1 456**	3 253	3 119	3 215	3 410
Dividend	**–**	–	–	–	–
Closing share price	**585**	351	575	2 315	2 990
Number of shares (million)					
In issue	**416,7**	416,7	416,7	416,7	389,8
Weighted average	**396,8**	397,4	400,6	374,0	373,9
Diluted weighted average	**402,1**	402,1	402,1	402,1	402,1
Stock exchange performance (cents per share)					
Market value per share					
– at year-end	**585**	351	575	2 315	2 990
– highest	**799**	709	2 445	3 155	3 740
– lowest	**340**	173	575	2 046	2 569
– volume weighted average price	**630**	365	572	2 566	3 102
Earnings yield (%)	**(277)**	(7,2)	(20,0)	(4,4)	4,2
Dividend yield (%)	**–**	–	–	–	2,0
Market capitalisation at closing prices**	**2 438**	1 463	2 396	9 274	11 656
Price to earnings ratio at year-end	**(0,4)**	(13,8)	(5,0)	(22,7)	24,0
Value of shares traded	**1 787,6**	1 403,8	4 843,7	5 718,4	7 884,8
Number of shares traded (million)	**295,9**	384,3	296,9	222,8	254,2
Average price per share traded (cents)	**605**	384	1 689	2 587	3 117
Percentage of market capitalisation traded (%)	**73**	96	202	59	68
Rand to AU dollar					
Closing	**10,05**	10,97	9,38	10,03	9,03
Average	**9,75**	11,14	9,58	9,54	9,08
Rand to US dollar					
Closing	**13,07**	14,73	12,17	10,68	9,88
Average	**12,90**	15,04	12,29	10,64	8,84

*** Market capitalisation based on shares in issue as at year-end.*

Refer pages 114 to 135 for more detailed financial information contained in the summarised audited consolidated financial statements. Certain comparatives have been restated in the summarised audited consolidated financial statements, refer note 3 on page 121.

Performance

Operational review

Construction and Engineering: South Africa and rest of Africa

Despite sustained weakness in its key markets, Aveng Grinaker-LTA is now better positioned to achieve its long-awaited return to profitability, having derisked its Civil Engineering and Mechanical and Electrical business units and secured 4,2% growth in its two-year order book. The operating group is working with its new empowerment partners to ensure that the restoration of its profitability is sustainable.

Andrew Langham, acting managing director,
Aveng Grinaker-LTA

Michael Canterbury, managing director,
Aveng Capital Partners

Focus	Performance
Position for slow economic recovery and resumption of opportunities	▸ The Building, Mechanical and Electrical, and Aveng Water business units focused on growth opportunities in the industrial and commercial building, municipal infrastructure, energy and water sectors ▸ The Civil Engineering business unit focused on strengthening its financial and operational performance in weak markets that offered limited opportunities
Increase revenue of Civil Engineering to restore balance between core disciplines and achieve target margins	▸ All business units experienced a decline in revenue; however, Mechanical and Engineering and Aveng Water restored their profitability ▸ Corrective measures were applied to return Civil Engineering to profitability
Leverage competitive advantage of Aveng Water in mining and municipal water sectors	▸ Aveng Water is leveraging its 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
Conclude empowerment deal	▸ The disposal of 51% of Aveng Grinaker-LTA (representing a 45% economic interest) to black women-owned and led investment company, Kutana Construction, was concluded in October 2017
Pursue opportunities in the rest of Africa	▸ Lower growth rates in sub-Saharan Africa have resulted in a decline in construction and engineering opportunities

Buildings
Commercial and civil

Roads & Rail
Construction, tunnels and bridges

Oil and gas
Plants and pipelines

Mining
Open cut and underground

Marine
Ports and sea infrastructure

Power
Fossil fuel, renewable and hydroelectric transmissions

Water
Reticulation, effluent and dams

Process & Industrial
Buildings and plant

Strategic alignment

The business units in this operating segment participate at all stages of the construction and engineering value chain in South Africa and targeted markets in the rest of Africa.

The strategy to stabilise Aveng Grinaker-LTA is largely complete and the focus has shifted to restoring its financial contribution to the Group. This includes a client solutions-based approach to business development, while effective value chain integration is driving higher levels of cooperation, enabling Aveng to offer multidisciplinary solutions to clients across the project lifecycle.

In a market environment that favours lower margin building projects, Aveng Grinaker-LTA seeks to optimise the balance between its business units and diversify its portfolio of projects based on client, country and competency to mitigate risk and strengthen performance. A plan to expand operations in selected geographic and sectoral markets in the rest of Africa is proceeding at a slow pace in the current environment.

To remain relevant to key clients and grow in a transforming South African construction sector, Aveng has introduced a black women-owned and led partner, Kutana Construction, with a significant equity interest in Aveng Grinaker-LTA and Aveng Water.

During 2017, Aveng Grinaker-LTA focused on:

- **Returning Civil Engineering to profitability.** A number of loss-making projects were completed during the year and contractual disputes and claims are in the process of being concluded. Further corrective measures included the appointment of new management, downsizing the business unit in line with lower market demand and a more selective approach to bidding, which will contain the size of the business unit until its operational performance is proven to be stable and the market improves.
- **Improving the profitability of the other business units.** The Mechanical and Electrical business unit was resized in 2016 and derisked by exiting unviable projects and limiting its appetite for future work to projects in which it has strong expertise and that offer viable margins. The business unit returned to profitability under new management in 2017. Building Inland completed some major building projects in Gauteng, proceeding with work on others and securing new contract awards in the commercial, industrial and municipal building sectors. Building Coastal experienced contractual challenges on two projects which were resolved by year-end. However, its operational performance was sound. Aveng Water continues to focus on leveraging its 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.
- **Transformation as a vehicle for sustainable growth.** The empowerment transaction concluded with Kutana Construction is a key element of Aveng Grinaker-LTA's future growth strategy as it will facilitate greater access to construction opportunities in the domestic public and private construction and engineering sectors.

Performance continued

Operational review continued

Construction and Engineering: South Africa and rest of Africa continued

Financial highlights*

Rm	2017	2016	Variance (%)
Adjusted revenue	**6 080**	7 344	(20)
Adjusted gross earnings	**237**	227	>(100)
Adjusted net operating (loss) / earnings	**(188)**	(148)	>(100)
Aveng Grinaker-LTA	**(195)**	342	>(100)
Aveng Capital Partners	**7**	194	(100)
Non-cash write-down	**204**	–	–
Operating free cash flow	**422**	364	43
Capital expenditure	**80**	48	67
Total assets	**1 905**	3 451	(44)
Total liabilities	**1 533**	2 044	(18)
Two-year order book	**6 832**	6 558	4,2

** This financial information is presented based on management's analysis of the performance of its business and does not conform to IFRS in its entirety.*

Aveng offers multidisciplinary construction and engineering services to its clients in southern Africa and other selected markets in the rest of Africa. It offers a comprehensive range of standalone or integrated services in building, civil engineering, roads, earthworks, concrete, ground engineering, mechanical, electrical, instrumentation and piping contracting, as well as project management, infrastructure investment, water treatment design, and facilities operation and maintenance services.

Future actions and focus areas

In alignment with the Group's strategy, Aveng Grinaker-LTA will focus on the following strategic imperatives as it pursues its vision to be a leader in the provision of construction and engineering solutions to its core markets in South Africa and other targeted markets in the SADC region:

- Implement a lean and uncluttered operating model
- Normalise financial performance by executing all projects at or above tendered margins
- Fully integrate Kutana Construction into the business and maximise the opportunity it offers
- Embed an owner-managed culture
- Establish a presence in all South African provinces and SADC countries

2017 performance

Operational and financial performance

The Construction and Engineering: South Africa and rest of Africa segment comprises Aveng Grinaker-LTA and Aveng Capital Partners. Aveng Water operates under its own brand but shares services with Aveng Grinaker-LTA's Mechanical and Electrical business unit.

The revenue of **Building** and **Coastal** remained stable at R3,1 billion (2016: R3,1 billion) as some major projects were completed and private sector investments in major office buildings and shopping centres slowed. A net operating loss of R75 million (2016: R83 million profit), was largely attributable to a once-off gain in the comparative period and the close-out of several complex and fast-tracked projects. Work on other projects progressed to plan.

In Gauteng, the iconic Sasol Head Office and phase 1 of the Leonardo Towers project in Sandton, and the ABSA data centre upgrade in Randburg, were successfully completed. The Old Mutual Head Office in Sandton is on schedule for completion in 2018, the 129 Rivonia development is due for completion in 2019 and phase 2 of Leonardo Towers has commenced.

In the Western Cape, the Cape Town International Convention Centre extension is on schedule for completion in July 2018 and the Centrepoint shopping centre will be completed during the 2018 financial year. The two UCT Campus Key residences were completed in time for student occupation but incurred losses due to an accelerated programme. The Coega IDZ testing facility in the Eastern Cape was completed in 2017.

In KwaZulu-Natal, the showcase Dr Pixley Ka Isaka Seme Memorial Hospital and alterations and extensions to the Shelley Beach Hospital are on schedule for completion in 2018.

Several new projects were awarded in the commercial, industrial and municipal sectors across South Africa. These include refurbishment and extensions to the Heineken brewery in Midvaal and the SAB brewery in Rosslyn, the redevelopment of the Rosebank Fire Station, the warehouse and paint shop for the Borbet Industrial Park in the Western Cape, the Chatsworth Junction shopping centre, the Coral Point residential development at the Sibaya resort and a contact centre for Cornubia in KwaZulu-Natal.

In the SADC region, the Virgin Active gym in the Windhoek Maerua Mall in Namibia was completed and work progressed on the Hilton Hotel in Swaziland, which is scheduled for completion in 2018. A contract for a Fintech office development in Swaziland was awarded during the year.

Partnerships with provincial and municipal authorities continue to facilitate the business unit's expansion into the local infrastructure development market, where Aveng tends to work in partnership with empowered subcontractors. Management contracts with the Western Cape Departments of Education and Health were renewed in 2017 and the Department of Public Works awarded a forensics laboratory contract at Groote Schuur Hospital. Similar relationships with the Johannesburg and Ekurhuleni municipalities and the Development Bank of Southern Africa in Gauteng also yielded new opportunities.

The revenue of **Civil Engineering**, including Aveng Rand Roads and Aveng Ground Engineering, declined by 41% to R1,3 billion, reflecting the completion of major projects and difficulty replacing them in a shrinking and competitive civil infrastructure market.

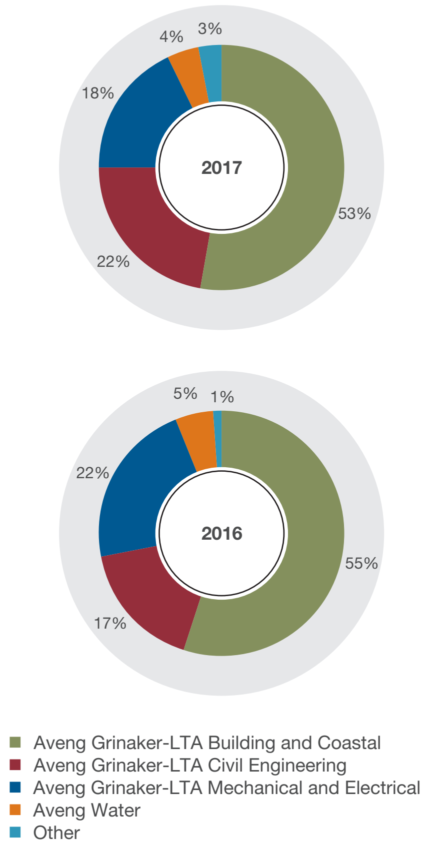
The 68 km Majuba rail servitude to transport coal to Eskom was completed in March 2017 and negotiations to recover additional costs incurred on this complex contract were concluded. Several roadwork contracts are being completed in 2017, including the Trompsburg section of new road construction on the N1, road rehabilitation of the R61 at St Marks and All Saints in the Eastern Cape, and the Okahanja roads project in Namibia. Work progressed on the Ventersburg section of the N1 contract.

The business unit recorded a disappointing loss of R388 million (2016: R16 million profit) as a result of a R110 million under-recovery, including legal costs, on the Mokolo Crocodile Water Augmentation claim, a loss of R95 million on the All Saints road rehabilitation contract due to operational underperformance, a R40 million loss recorded by Aveng Ground Engineering in a competitive market, and non-recurring retrenchment and holding costs of R92 million.

Measures taken to restore financial and operational performance included the completion of a number of loss-making contracts and resolution of contractual disputes by year-end, appointment of new management, reduction in the business unit's overhead cost structure in line with lower market demand, and a more selective approach to bidding.

Aveng Rand Roads achieved its budgeted turnaround to profitability, buoyed by higher demand for road rehabilitation in Gauteng and an increase in asphalt and binder sales.

Two-year order book



2017 events

Performance continued

Operational review continued

Construction and Engineering: South Africa and rest of Africa continued

New contract awards include a 12-month contract for the design and construction of a coal offloading facility at Majuba Power Station, road building and rehabilitation on the R556 and N4 near Hartbeespoort dam and piling works at the Ocean development in Ballito.

Mechanical and Electrical achieved a substantial turnaround from an operating loss of R143 million in 2016 to an operating profit of R68 million, despite a 14% decline in revenue to R1,2 billion due to the completion of work on major projects and limited availability of new structural, mechanical, electrical and piping work. The turnaround in the business unit's performance was achieved by significant interventions undertaken in 2016, including a shift to operations and maintenance work to mitigate low levels of demand in traditional sectors, a reduction in the business unit's overhead cost structure in line with market demand and the appointment of new leadership.

The focus of the business unit was primarily on major shutdown and maintenance contracts for Sasol, Sapref, Engen and PetroSA refineries in the industrial and oil and gas markets. The multidisciplinary balance of plant (BOP) mechanical works at Kusile Power Station progressed and negotiations for a revision of the contract with Eskom were concluded by year-end. Aveng has trained and employed people from nearby communities to work on the BOP project sites.

The revenue of **Aveng Water** increased by 15% to R356 million as the business completed construction work on water and power plants and progressed to commissioning and operations. Construction of the eMalahleni Phase 2B water treatment plant is near completion and is due to be commissioned during the second quarter of the 2018 financial year. In addition to the eMalahleni project, Aveng Water has operations and maintenance contracts at a number of other water treatment plants, including the Middelburg Water Reclamation plant in South Africa and the Erongo desalination plant in Namibia. The completion of loss-making projects and careful management of the costs to complete the eMalahleni contract, enabled the business unit to turn around from a loss of R273 million in 2016 to a profit of R32 million.

Aveng Capital Partners (ACP), which manages Aveng's investments in South African toll roads, real estate and renewable energy concessions and investments, reported a decline in net operating earnings to R7 million following the disposal of its operating infrastructure investments in the current year. ACP successfully disposed of its N3TC equity interest for R195 million in December 2016 and its equity interests in the Sishen solar and Gouda wind renewable energy plants for R600 million in February 2017. Through these disposals ACP contributed a total of R821 million to the Group's cash flow. ACP continues to manage the remaining assets in the portfolio, including 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.

ACP is undergoing a period of restructuring under new management. A number of opportunities have been identified in the water, transport, power, property development and student and government accommodation sectors. The pursuit of these projects will be beneficial to the wider Aveng Group, enhancing the Aveng Grinaker-LTA order book and providing a source of high return assets. These opportunities are at an early stage of evaluation.

Looking forward, a key element in ACP's future growth strategy is to increase its market connectivity by developing and leveraging the Aveng Group's operating capabilities and relationships while maximising its pipeline opportunities within the sectors identified above.

Safety, health and environment performance
Aveng Grinaker-LTA reported no fatalities in operations under its supervision.

A decline in safety performance was reflected in a lost-time injury frequency rate (LTIFR) of 0,40 (2016: 0,17), against the target of 0,15 and an all injury frequency rate (AIFR) of 3,28 (2016: 2,06).

However, it should be noted that a number of projects achieved commendable safety performances, which demonstrates that creating an injury-free workplace is possible in a high risk, complex construction environment. Interventions were implemented at specific high risk projects to improve the safety culture. This included an industrial theatre roadshow to create awareness and understanding of lifesaving rules. All safety professionals are registered with the South African Council for Project and Construction Management Professions, as legally required.

To mitigate the high risk of transport-related accidents in the construction industry, risk-based driver training was finalised for all machine operators and appointed drivers.

No major environmental issues were reported.

All business units were recertified in the safety, health and environmental management systems OHSAS 18001, ISO 14001 and ISO 9001.

Human capital performance
Performance management remains a key focus area, with established procedures supported by training and development in critical commercial, engineering and safety skills.

There is a strong focus on recruiting the right people, retaining them and ensuring that they are adequately supported by a culture of safety, discipline and development. This has enabled the operating group to enhance performance management with carefully selected new appointments which have strengthened leadership capacity in the Aveng Water, Mechanical and Electrical and Civil Engineering business units.

Aveng Grinaker-LTA offers an extensive range of accredited leadership development, skills training, apprenticeship and learnership programmes. The Aveng Grinaker-LTA graduate in training programme currently has a cohort of 28 graduates completing their first and second years of workplace training, 36% of whom are female and 75% black participants. The Aveng Grinaker-LTA mentorship programme for professional registration with the Engineering Council of South Africa has 29 candidates on the civil engineering internship and 15 on the mechanical engineering programme. Nine of the 44 candidates are female and 22 are black. Bursaries were awarded to 39 individuals – 92% black, 36% females.

Although the ongoing restructuring programme had an adverse impact on some employment equity initiatives, Aveng operating groups have developed capacity building plans to address gaps.

Transformation performance
The operating segment has a level 3 B-BBEE rating based on the revised codes of good practice, and continues to focus on improved performance in employment equity and enterprise development.

The introduction of a B-BBEE partner with a significant equity interest in the business will support the transformation of Aveng Grinaker-LTA and position it for future growth in the domestic public and private construction and engineering sectors.

Aveng's iKhule Construction Incubator Programme, launched in 2016 in partnership with the Department of Trade and Industry, is the first of its kind in South Africa and will play a key role in transforming the sector. The Incubator currently has 20 emerging construction companies receiving theoretical and practical construction-related training, development and mentoring. In total, 40% of iKhule beneficiaries are youth, and 30% are women.

Looking ahead

- Economic conditions in South Africa are likely to remain challenging in 2018 and the economies of many other African countries continue to experience slower growth. Despite this subdued outlook, there are pockets of opportunity in the domestic construction and engineering sectors.
- The Construction and Engineering: South Africa and rest of Africa segment commenced the new financial year with a two-year order book of R6,8 billion (2016: R6,6 billion), R5 billion of which has been secured for 2018. Building and Coastal continues to account for the bulk of the two-year order book (R3,6 billion), while Civil Engineering accounts for R1,5 billion, Mechanical and Electrical for R1,2 billion and Aveng Water for R255 million.
- Revenue is likely to remain under pressure in persistently weak markets. However, the interventions to improve profitability have strengthened the position of Mechanical and Engineering and are expected to have a similar impact on Civil Engineering in 2018. This will create a more stable platform from which Aveng Grinaker-LTA can start leveraging its newly empowered status to benefit from growth opportunities, particularly in the domestic construction and engineering sector.

Industry accolades

SAPOA Building Awards
Best corporate offices – Sasol head office

Fulton Awards
Innovation in Concrete – Van Zyl Spruit Bridge

Performance continued

Operational review continued

Construction and Engineering: Australasia and Asia

McConnell Dowell's turnaround has taken longer than anticipated, but the QCLNG award and write-downs on other projects have removed substantial risk from its balance sheet. This, combined with a new leadership team, a strong order book and improved capacity for project execution and delivery, positions McConnell Dowell to return to profitability in 2018 and become a stabilised operation preparing for growth.

Scott Cummins, chief executive officer,
McConnell Dowell

Focus	Performance
Reset and stabilise McConnell Dowell	▸ A clear four-phase transformational growth strategy – reset, stabilise, consolidate, grow – executed to improve financial and operational performance ▸ New multi-regional, multidisciplinary operating model embedded to leverage group-wide capability, increase efficiency and effectiveness, improve transparency and accountability, and manage and reduce project and group-wide risk ▸ New appointments in 80% of executive committee positions and 50% of operational management to strengthen leadership capacity and capability ▸ Technical and operational capacity enhanced to support pursuit and execution of projects ▸ Stronger levels of governance and central controls implemented to support key decision-making processes
Normalise financial performance	▸ Balance sheet and cash flow strengthened by settlement of legacy claims and disputes. Supportive of growth strategy ▸ Ongoing focus on improving operating free cash flow ▸ Significant progress in re-establishing client relationships and developing road map towards resolution of remaining legacy and historic commercial disputes ▸ Fixed cost base reduced by 20%, in line with lower revenue, contributed to a reduction in business expenditure ▸ Built Environs achieved modest turnaround to profitability ▸ Majority of contracts awarded in 2017 achieving tendered margins
Implement structured approach to winning new work	▸ Adopted new tender and bidding processes to position and win quality contracts ▸ Strengthened business development capacity and focus ▸ Developing stronger client relationships ▸ 3% growth in two-year order book; 100% of 2018 revenue secured

Buildings Commercial and civil

Roads & Rail Construction, tunnels and bridges

Oil and gas Plants and pipelines

Mining Open cut and underground

Marine Ports and sea infrastructure

Power Fossil fuel, renewables and hydroelectric transmissions

Water Reticulation, effluent and dams

Process & Industrial Buildings and plant

Strategic alignment

Through its 100% investment in McConnell Dowell, Aveng achieves geographic diversification with access to markets in Australia, New Zealand and Pacific Islands, Southeast Asia and the Middle East.

During the last two years, a new management team has executed and completed the first phase of a strategy to restore operational discipline and stabilise McConnell Dowell in preparation for sustained growth and profitability in the longer term. This has involved streamlining the Group along geographic lines and embedding a new operating model with strong business and project governance processes and risk management structures. A strong focus on building customer relationships and a structured approach to winning quality work contributed to a number of new project awards across the business units during 2017. These new projects are being executed under the new regime.

During 2017, McConnell Dowell focused on:

- **Completing the reset phase, stabilising and preparing for growth:** The new multi-regional, multidisciplined business model was embedded throughout the group to establish a strong foundation and greater visibility across the operations. The transformation of the business is well under way and the process of strengthening leadership capability and capacity was completed with the appointments of new managing directors in the Southeast Asia and New Zealand and Pacific business units and further strengthening of operational and business development capacity. The positive influences of new appointments in 2016 to strengthen leadership in the Australian and Built Environs business units have been clearly evident during 2017.
- **Concluding legacy and historical disputes that continued to impact financial performance:** The settlement of the long-standing QCLNG claim subsequent to the year-end had a materially positive impact on the balance sheet, paving the way for McConnell Dowell to proceed with its overall strategic journey towards growth and sustained profitability. Several other long-outstanding claims were also settled.
- **Reducing the fixed cost base to reflect lower revenue:** A strong focus on business unit and corporate overheads reduced the cost base by 20% but retained the nucleus and foundation for future growth.
- **Strengthening operational and risk management:** New tender and bidding processes were adopted and regular structured business and project review meetings were introduced at operational and business unit levels to strengthen visibility and accountability. Stronger management capability is improving operational and financial performance across the Group. Performance on some historic underperforming projects was corrected and the majority were completed in 2017 or are scheduled for completion early in 2018. The majority of new projects awarded in 2017 are achieving tendered margins.
- **New business development:** As it focused on restoring operational excellence, McConnell Dowell also strengthened business development capacity, client relationships and early positioning winning strategies for targeted projects. A structured approach for winning work, based on project selection and renewed tender management practices, was implemented. During the second half of the year, the order book was boosted by approximately AUD500 million in new and extended contracts across the Group's specialist capabilities and in all of its operating regions and business units. The specialist capabilities are a critical element of the growth plan and the Group continues to grow within its existing footprint and strengthen its market leading positions. All business units are well positioned to benefit from the growing global demand for infrastructure and resources.

Performance continued

Operational review continued

Construction and Engineering: Australasia and Asia continued

Financial highlights*

	AUDm			Rm		
	2017	2016	Variance (%)	**2017**	2016	Variance (%)
Adjusted revenue	**906**	1 264	(28)	**9 293**	12 828	(28)
Adjusted gross earnings	**64**	98	(35)	**657**	1 091	(40)
Adjusted net operating (loss) / earnings	**(12)**	1	(<100)	**(129)**	14	(<100)
Non-cash write-down	**(433)**	–	(<100)	**(4 241)**	–	(<100)
Operating free cash flow	**(70)**	(235)	(70)	**(583)**	(2 583)	(77)
Capital expenditure	**17**	13	31	**168**	150	12
Total assets	**584**	975	(40)	**5 676**	10 699	(47)
Total liabilities	**435**	402	8	**4 377**	4 410	(1)
Two-year order book	**1 517**	1 505	1	**15 250**	16 510	(8)

** This financial information is presented based on management's analysis of the performance of its business and does not conform to IFRS in its entirety.*

McConnell Dowell is a major engineering, construction and maintenance contractor, delivering complex projects in the building, infrastructure and resources sectors in Australia, New Zealand and Pacific Islands, Southeast Asia and the Middle East.

Future actions and focus areas

In alignment with the Group's strategy, McConnell Dowell will focus on the following strategic imperatives as it restores its position as a leader in the delivery of construction and engineering solutions to its core markets in Australia, New Zealand and Pacific Islands, and Southeast Asia:

- Embed a culture of accountability, openness, transparency and urgency throughout the business
- Achieve modest but normalised financial performance
- Pursue the growth strategy, taking advantage of market opportunities
- Expand Built Environs operations in New Zealand and Brisbane
- Maintain active engagement with key customers

2017 performance

Operational and financial performance

The Construction and Engineering: Australasia and Asia operating segment comprises McConnell Dowell's four business units – Australia, New Zealand and the Pacific, Southeast Asia and Built Environs. The Middle East business is a joint venture operated in partnership with Dutco and represents a minor part of the portfolio.

The revenue of the **Australian** operations declined by 38% to AUD328 million (2016: AUD525 million) due to the more selective approach to bidding and a strong focus on operational excellence. The business unit successfully completed its maritime works for the Port of Melbourne's Webb Dock redevelopment project which received Australia's pre-eminent engineering construction award for the exceptional delivery of customer-focused solutions within a challenging logistical and engineering environment. The O'Bahn City Access and Amrun Export Facility projects also performed to expectation during the year. But, margin slippage on the K2K Pacific Highway upgrade, Barangaroo Ferry Terminal and Port Stanvac Wharf projects contributed to the increased loss of AUD65 million (2016: AUD43 million loss).

A number of new contracts were awarded, including the Murray Basin rail upgrade and Northern Gas pipeline, resulting in a 63% increase in the business unit's order book to AUD675 million at year-end. The new contracts are being executed at tendered margins.

The operational and business development capacity of the Australian management team was strengthened by new appointments during the second half of the year.

Southeast Asian operations experienced a 32% decline in revenue to AUD237 million (2016: AUD346 million). A number of projects secured in 2016 performed to expectation, including the Tuas bridge project in Singapore, the Rapid mega development jetty in Malaysia and the Maris hydro power plant. But underperformance in the MES Aurora and Banyan Avenue infrastructure projects in Singapore contributed to a loss of AUD17 million (2016: AUD56 million). Both projects are scheduled for completion during the first half of 2018. The Tanngguh LNG export jetty contract awarded to the business unit in 2017 is in an early phase of execution and performing at the tendered margin. Following several months of working closely with the Marina Bay Sands project, it was successfully negotiated and awarded prior to year-end.

The appointment in July 2017 of a new managing director with extensive knowledge of the Southeast Asia region and EPC experience in the oil and gas sector, will strengthen the business unit's strategic and operational leadership in markets that offer significant, albeit highly competitive, opportunity in McConnell Dowell's core disciplines in the marine infrastructure and energy sectors. The Southeast Asia order book was AUD420 million at year-end.

The revenue of **New Zealand and Pacific Islands** declined by 16% to AUD270 million (2016: AUD323 million) as the business unit successfully delivered the Waterview Tunnel and its work on the Stronger Christchurch Infrastructure Rebuild programmes came to an end. Some projects, including the Russley Road and Sumner Road projects in Christchurch and the Bonriki Airport runway project in Kiribati exceeded expectations. But these performances were not sufficient to compensate for the adverse impacts of underperformance on the NOIC irrigation expansion and Kawarua Falls bridge projects, resulting in a loss of AUD19 million (2016: AUD10 million). The NOIC and Kawarua projects are scheduled for completion during 2018.

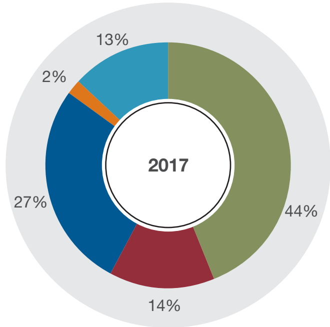
The award of the Lyttleton tunnel upgrade, five-level crossing upgrades and Pago Airport runway project in New Zealand and Pacific Islands contributed to the business unit's order book of AUD281 million at year-end, but revenue for 2018 is likely to remain muted as the business focuses on operational excellence and tendering for planned major projects to be awarded in the 2019 financial year.

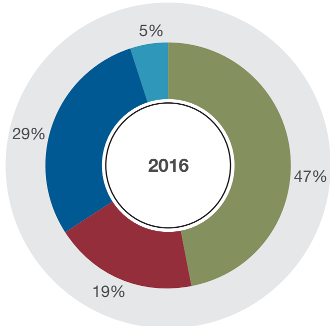
The appointment in August 2017 of a new managing director with a sound track record in project execution within the New Zealand infrastructure market bodes well for the business unit.

McConnell Dowell's commercial building arm, **Built Environs** achieved a modest turnaround in reasonable market conditions, reflecting the positive impact of new management appointments in 2016 on project delivery and new business development.

A substantial increase in new work, including the awards of the West Franklin residential development, Midvale shopping centre and Urbanest student housing, boosted revenue by 5% to AUD47 million. All projects were well executed at tendered margins, resulting in positive cash flows and an operating profit of AUD1 million (2016: AUD10 million loss). Built Environs has a strong pipeline of work and is capitalising on strong vertical build investment in Australia and New Zealand.

Two-year order book





- Australia
- New Zealand
- Southeast Asia
- Middle East and other
- Built Environs

Performance continued

Operational review continued

Construction and Engineering: Australasia and Asia continued

The **Middle East** business unit, which is operated in joint venture with Dutco, performed satisfactorily in a challenging business environment.

McConnell Dowell holds strong positions in all its operating regions and selected market sectors and is underpinned by its core strength of diversity and specialised capabilities and service offerings.

Safety and health performance

Tragically, McConnell Dowell had a subcontractor fatality in March on the Barangaroo project in Sydney. This incident is reflected in the health and safety statistics reported for the year, with a LTIFR of 0,69 against a target of 0,45 and an AIFR of 13,81 against a target of 17.

However, the positive trend in reporting of potential for harm incidents continued, with an increase in the potential for harm:all injury (PH:AI) ratio of 134 against a target of >80. This is a leading indicator of continued vigilance by workers, supervisors and site teams of potential hazards.

McConnell Dowell implemented safety leadership training and has planned project engagement workshops for all projects. Engagement of the subcontractor workforce is essential to drive the health and safety message into the projects and to ensure all parties are part of the McConnell Dowell health and safety culture. The Loyang plant yard in Singapore increased its LTI-free record to 16 years.

McConnell Dowell's investment in the CMO HSEQ database continues to improve internal reporting. The audit module is now in use and the automated escalation action close-out has been activated. This enables actions to be monitored by senior management until close-out is achieved.

Environmental performance

McConnell Dowell Group maintained its strong environmental performance in 2017, with no serious environmental incidents recorded and a serious environmental incident frequency rate of one (2016: 0).

This reflects sound environmental management, ongoing improvement in the environmental aspects of the McConnell Dowell management system and a continued focus on good environmental outcomes on projects across the business.

McConnell Dowell developed and implemented a new suite of environmental management standards in 2017, comprising 10 minimum required standards for environmental management across all facilities, projects, and geographies. The minimum standards relate to key environmental risks common to most McConnell Dowell facilities and projects.

In demonstrating its support for sustainable development, McConnell Dowell continues to participate in initiatives with industry partners, such as the Infrastructure Sustainability Council of Australia (ISCA) Contractors' Working Group and the Australian Constructors' Association Sustainability Working Party. McConnell Dowell Australia became a signatory to the UN Global Compact in 2017, publicly stating commitment to the UN Sustainable Development Goals.

Human capital performance

2017 has been a year of continued organisational change as part of McConnell Dowell's reset strategy. Following the appointment of Scott Cummins as CEO, several key executive appointments and significant changes to the composition of the executive committee were made, including the appointment of managing directors for Australia, New Zealand and Southeast Asia. This follows other external appointments to strengthen capability and capacity in commercial, business development and strategy, and human resources management.

In New Zealand, McConnell Dowell was the first construction company to set up a fully accredited Private Training Establishment. Through it, the majority of training is provided in-house, enabling McConnell Dowell to deliver high quality, consistent and effective learning that meets internal requirements and improves delivery to clients.

Industry accolades

- Australian Construction Achievement Award – Webb Dock
- Master Builders Award – Modbury Hospital
- Civil Contractors New Zealand – Waterview Tunnel
- Institution of Civil Engineers 2017 Brunel Medal – Brisbane Ferry Terminals

Looking ahead

- The Australian construction industry is expected to grow at a steady pace over the next five years, driven largely by public and private sector investment in road, rail and power infrastructure projects in the east coast economies of New South Wales and Victoria. These projects require specialist capabilities in some of McConnell Dowell's key disciplines, such as marine, tunnelling and pipeline development. Population growth and a burgeoning middle class continue to fuel demand for transport, water and energy markets across Southeast Asia, providing considerable opportunity for the regional construction industry. The New Zealand economy continues to gain momentum from government investment in large-scale transport, water and building programmes to support population growth and the need to renew ageing infrastructure. Intense competition in all of these markets remains a material challenge to domestic contractors.
- 2017 has been a year of fundamental change for McConnell Dowell and the company has emerged with a healthier balance sheet and a two-year order book of AUD1,5 billion (2016: AUD1,5 billion), with 100% revenue secured for 2018. The order book was boosted by approximately AUD500 million during the second half of 2017 by the award of new or extended contracts across McConnell Dowell's specialist capabilities and in all of its operating regions and business units.
- McConnell Dowell is also the preferred contractor on several new projects, either currently under negotiation or under an early contractor involvement process. The Group is actively seeking additional opportunities to create solutions for customers, while delivering on current projects.

Performance continued

Operational review continued

Mining

Aveng Mining consolidated its position in 2017, strengthening its operational and financial performance in tough market conditions and responding nimbly to new opportunities that increased the order book. These factors all contribute to a strong outlook for 2018.

Stuart White, managing director
Aveng Mining

Focus	Performance
Preserve financial performance in weak market conditions	▸ Increased profit margin by 1%, despite a 17% decline in revenue, due to strong operational capability, cost discipline and innovative capital management
Position business to benefit from market recovery	▸ Five new contract awards secured: – Sishen Iron Ore Mine, Northern Cape – Gamsberg Zinc Mine, Northern Cape – Khutala Colliery, Mpumalanga – Karowe Diamond Mine, Botswana – Lefa Gold Mine, Guinea ▸ Operational and financial stability were key factors in the award of new contracts and contract extensions
Rebalance geographic, client and commodity weighting of order book	▸ New contract awards increased the diversity of clients and commodities, and contributed to an improvement in the ratio of work outside South Africa

Buildings Commercial and civil

Roads & Rail Construction, tunnels and bridges

Oil and gas Plants and pipelines

Mining Open cut and underground

Marine Ports and sea infrastructure

Power Fossil fuel, renewables and hydroelectric transmissions

Water Reticulation, effluent and dams

Process & Industrial Buildings and plant

Strategic alignment

The integration of Aveng's open cut and underground mining business units has positioned the Group to offer its clients comprehensive services across the mining value chain under one strong brand. This enables Aveng Mining to leverage the combined strength of the business units and market its scale and mining contracting capabilities more effectively.

Aveng Mining seeks profitable growth by optimising the efficiency of its existing operations, leveraging the distinct advantages of its open cut and underground mining operations to offer clients solutions for multidisciplinary mining projects, and working with clients to drive down project costs. The development and maintenance of enduring client relationships is a strategic imperative for Aveng Mining as this enables the operating group to negotiate longer term contracts or contracting arrangements that provide annuity income.

Aveng Mining pursues revenue growth in local and international markets which offer viable returns and are aligned with the Group's strategy. It seeks to manage risk by diversifying its operations across a range of clients, commodities, currencies and geographic markets.

During 2017, Aveng Mining focused on:

- **Rebalancing its client and commodity portfolios to spread risk.** The new awards introduced South 32 Coal Holdings, Verdanta Plc and Boteti Mining to the portfolio, three new clients that are committed to the long term potential of South Africa and the southern Africa region. Furthermore, the new awards and contract extensions increased the weighting of coal, zinc, iron ore, manganese and diamonds in the commodity mix.
- **Expanding open cut and underground operations beyond South Africa.** To restore a higher ratio of projects beyond domestic borders (currently 35%; targeted 60% to 70%), Aveng Mining is pursuing growth in the rest of Africa, the Middle East and South America. The Karowe and Lefa contracts in Botswana and Guinea respectively, have marginally increased the ratio of international projects, while the underground operations are focused on leveraging the footprint Aveng Moolmans has established in African mining markets. Further afield, expansion plans have been initiated to facilitate access to underground mining prospects in South America, and open cut and underground mining opportunities in Saudi Arabia, arising from the policy of economic diversification in the Middle East region.
- **Increasing the ratio of underground operations.** Limited success was achieved in restoring underground operations to the targeted 25% of the Aveng Mining portfolio in 2017 due to sustained market weakness, limited opportunities and strong competition. This remains a key focus area, with the emphasis on growing the order book outside South Africa and increasing contract mining work which offers annuity income. However, revenue growth is not pursued at the expense of profitability, and an advantage of the integrated operation is that the relative strength of the open cut mining operation has protected the underground operation from having to take on work at unviable margins.

Performance continued

Operational review continued

Mining continued

Financial highlights

Rm	**2017**	2016	Variance (%)
Gross revenue	**4 184**	5 026	(17)
Gross earnings	**410**	440	(7)
Net operating earnings	**219**	276	(20)
Operating free cash flow	**(41)**	363	>(100)
Capital expenditure	**557**	151	>100
Total assets	**4 123**	3 952	4
Total liabilities	**1 450**	1 425	3
Two-year order book	**7 754**	4 906	58

Aveng offers services across the mining value chain, from turnkey solutions in shaft sinking, underground development, contract mining for both open cut and underground mining, to construction of mine infrastructure. Aveng Mining is one of only four deep-level shaft sinking companies worldwide. These activities span a broad range of commodities and the Group has extensive experience in remote and difficult locations.

Future actions and focus areas

In alignment with the Group's strategy, Aveng Mining will focus on the following strategic imperatives as it pursues its vision of being the leader in the provision of mining solutions to its core markets in Africa, South America, Middle East and the Commonwealth of Independent States:

- Normalise performance and realise potential revenue of R8 billion in core markets
- Pursue strategic partnerships to strengthen competitiveness and growth in core markets, including an international partnership to enable technology advances and alternative service offerings across the mining value chain
- Develop a viable, creative solution for a capex replacement programme for growth

2017 performance

Aveng Mining comprises Aveng Moolmans (open cut mining) and Aveng Shafts & Underground (shaft sinking, access development and contract mining) which are fully integrated under a single leadership structure with shared premises and services.

Operational and financial performance

Aveng Mining responded swiftly to the weak market conditions that impacted its business in 2015 and 2016 by integrating its operations and maintaining disciplined operational efficiency and financial management. This positioned the operating group favourably for an earlier than anticipated increase in investment in open cut mining operations, as certain commodity prices, notably those of manganese, iron ore, coal and zinc rallied during the year.

Five new open cut mining contracts were secured, collectively valued at R5,8 billion with contract durations ranging between 32 months and six years. In South Africa, Sishen Iron Ore company awarded Aveng Mining a five-year extension contract to mine ore and waste at its mine in the Northern Cape, Black Mountain Mining awarded a 44-month contract to mine ore and waste at its Gamsberg zinc mine in the Northern Cape and South 32 Coal Holdings awarded a 33-month contract to mine ore and waste at its Khutala coal mine in Mpumalanga.

In Botswana, Boteti Mining awarded Aveng Mining a six-year contract to provide the full suite of mining services to the Karowe diamond mine, including all drill, blast, load and haul functions for ore and waste.

Following on from a plant hire agreement that began in 2016, SMD SA awarded Aveng Mining a 32-month contract to provide load and haul services to its Lefa gold mine in Guinea, West Africa.

The majority of these projects were mobilised and commenced within short time frames compared to the long lead times normally associated with open cut mining projects, largely due to the relative financial stability of Aveng Mining, its readily available fleet and its preparation for new opportunities.

Work progressed well on a number of existing long term open cut mining contracts, including the Kolomela iron ore mine in the Northern Cape and the Nkomati nickel mine in Mpumalanga where the contract scope was increased to accelerate waste stripping. The Tshipi é Ntle manganese mine returned to full production as a result of improved manganese prices.

Aveng Mining has maintained a presence on both the Sadiola gold mine in Mali, West Africa, as the client firms up a sulphides project, and Langer Heinrich uranium mine in Namibia which is on care and maintenance pending an improvement in uranium prices. The waste and ore mining contract at Somita SA's Tarpako gold mine contract in Burkino Faso showed signs of recovery following an intervention to rectify underperformance of equipment.

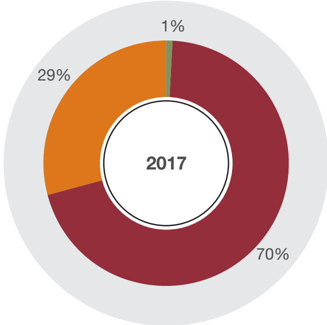
The underground mining operations have not experienced the same increase in client activity as investment in shaft sinking and mine development tends to lag behind open cut mining when mining markets recover. Competition for limited opportunities in this sector remained intense during the year. The Chuquicamata copper mine contract in Chile was completed during the first half of the financial year, having achieved shaft bottom at 918 metres ahead of schedule in July 2016. While additional costs were recorded during closure processes, the sound execution of the project established a track record for Aveng Mining in South America, positioning it favourably for a second shaft planned by the client, Codelco, and other shaft sinking and mine development opportunities in the region.

In South Africa, mine development contracts at the Assmang Black Rock and Kalagadi manganese mines were completed and Aveng Mining maintained a presence at Kalagadi in preparation for final commissioning of the mine. Improved operational performance was evident in the long term shaft sinking and development work at Ivanhoe's Platreef platinum mine, where the sinking rate in excess of 50 metres per month is well ahead of the benchmark established for African mines.

The Bakubung separation agreement was concluded with Wesizwe in September 2016 and accounted for during the first half of the financial year. The operation was handed over to the client and the reduced scope of the contract was completed in the final quarter of the financial year. The Sasol Shondoni coal project experienced significant challenges, largely as a result of delays caused by geological challenges, disruptions and scope changes.

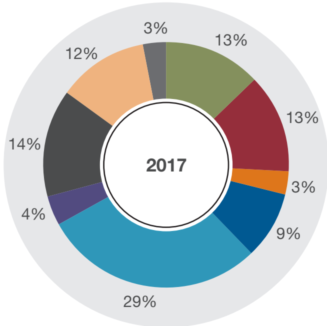
The financial performance of Aveng Mining reflected difficult operating conditions in which most clients remained under significant cost pressure.

Revenue by geography



- South Africa
- Rest of Africa and Indian Ocean Islands
- South America

Two-year order book by commodity

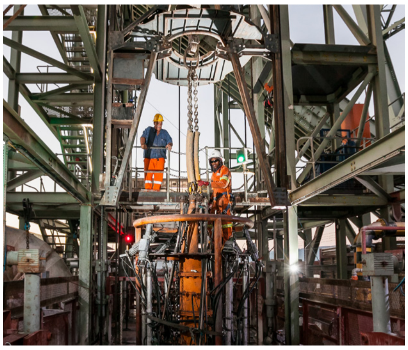


- Nickel
- Diamonds
- Gold
- Uranium
- Zinc
- Coal
- Iron ore and waste
- Manganese
- Platinum

Performance continued

Operational review continued

Mining continued



But, it also demonstrated the extent to which Aveng Mining has strengthened its operational efficiency. A lower cost base established as a result of ongoing operational efficiencies and cost savings supported a 1% improvement in the margin, despite a 17% decline in revenue.

Idle fleet was redeployed to the newly awarded projects, which commenced during the second half of the year, and additional equipment requirements of the new projects were funded with expansion capital of R557 million.

Cash generation was impacted by the increase in capital expenditure, but Aveng Mining – a reliable generator of cash for the Group – expects to return to normal levels of operating free cash flow in 2018.

A more innovative approach to capital management, which has seen the operating group shift from the pure asset-based financing of the past to more creative funding arrangements, is contributing to an improvement in the return on invested capital (ROIC).

Safety, health and environment performance

Regrettably, Aveng Mining reported one fatality (2016: 0) at an underground mine in Limpopo province when an employee sustained serious injuries from a fall from height incident.

Aveng Mining achieved a LTIFR of 0,26 (2016: 0,29) and an AIFR of 1,44 (2016: 1,27). Both represented an improvement, although the AIFR did not reflect this due to a reduction in man-hours recorded. All site operations implemented initiatives to ensure that the workforce continually assesses and controls potential hazards.

A number of mining projects recorded significant safety milestones. Sadiola Mine achieved 6,5 million LTI free man-hours, Sishen Mine achieved two million LTI free man-hours and Spud Shaft achieved more than four years LTI free.

Aveng Mining launched an integrated safety, health, environment and quality (SHEQ) management system for its combined operation, becoming the first South African mining-related company to be certified for this. The integrated management system has enabled the operations to undertake joint certifications for ISO 14001, ISO 9001 and OHSAS 18001 (or ISO 45001:2016), ensuring a holistic risk-based approach to SHEQ governance and assurance. Significantly, the system will enable Aveng Mining to establish a safety benchmark that sets it apart from its competitors and improves its position as a contractor of choice.

To minimise harm to the environment, Aveng Mining embarked on a “zero waste to landfill” campaign in 2015 in partnership with a waste recycling service provider. The campaign focuses on recycling used oil, scrap metal and other waste items, reusing and recycling electronic waste and reusing tyres on site or donating them to communities for reuse. Since its inception, Aveng Mining has recycled 98,51 tonnes of waste and 27 835 litres of used oil, yielding rebates of R173 625. This initiative is value adding for clients as it reduces waste generated on mining operations.

Human capital

Following the merger of the open cut and underground businesses, Aveng Mining relocated its training centre to the Aveng Group complex in Jet Park and re-accredited the centre in February 2017. Two additional trades, auto electrical and diesel mechanic, were added. Some training programmes are offered externally to Aveng Mining customers.

The training centre provides core skills, enhancing the productivity and competitiveness of Aveng Mining.

The below table illustrates the accreditation status of the Aveng Mining training centres:

Training centre name	Accrediting authority	Training activity	Accreditation expiry date
Jet Park Engineering Training Centre	NAMB/ MERSETA	‣ Training ‣ Assessment ‣ Trade test centre	1 February 2020
Northern Cape Engineering Training Centre	QCTO/NAMB	‣ Training ‣ Trade test centre	23 September 2019
Shafts and Underground Mining Training Centre	MQA	‣ Training ‣ Assessment	19 January 2020
Open cut Mining Training Centre	MQA	‣ Training ‣ Assessment	26 January 2020

An organisational culture alignment has been implemented throughout Aveng Mining, strengthening the operating group's values-based approach, employee engagement and performance management.

The process has developed a shared culture that embraces best practices and enhances future performance.

Aveng Mining attained a B-BBEE level 3 status in 2017 due to encouraging progress, particularly in the skills development and enterprise supplier development scorecard elements. The operating group continues to focus on employment equity.

Industry accolades

Awarded internationally recognised SHEQ integrated management system certification.

Looking ahead

- A positive outlook for 2018 is supported by 58% growth in the two-year order book to R7,8 billion (2016: R4,9 billion) due to the award of new contracts and renewal of existing contracts that reduced volumes or were placed on care and maintenance during the 2016 downturn. 93% of the order book has been secured for the 2018 financial year and the majority of contracts have long term durations.
- The operating group intends to maintain its lower cost base, despite the increase in the order book and the anticipated revenue growth in 2018. Ongoing improvement will be sought in the profit margin as new contracts are secured in an improving commodities environment. Aveng Mining will continue to focus on continuous efficiency improvements and will target contracts with sound clients on viable projects offering sustainable profit margins to ensure a balance between revenue growth and profitability.
- As Aveng Mining seeks to restore the balance of the geographic, client and commodity weighting of its order book, it is focusing on opportunities in the gold, bauxite, coal and platinum sectors in Botswana, Guinea, Mali, Mozambique, Tanzania and Zimbabwe. Further afield it is pursuing access to markets in the Middle East, South America and the CIS. Opportunities in the domestic gold, platinum and iron ore sectors are also on the agenda.
- Aveng Mining will maintain its strong focus on growing the order book outside South Africa by leveraging the strong track record Aveng Moolmans has established, particularly in the rest of Africa, and on increasing contract mining work which offers annuity income. The pursuit of strategic partnerships to strengthen the operating group's competitiveness and growth in its core markets, including international partnerships to enable technology advances and alternative service offerings across the mining value chain, are key focus areas for 2018 and 2019.

Performance continued

Operational review continued

Manufacturing and Processing

Profit and efficiency improvement programmes were implemented in 2017 to improve profitability and cash generation in challenging operating conditions. These interventions are expected to strengthen financial performance in 2018.

Solly Letsoalo, managing director,
Aveng Manufacturing

Hercu Aucamp, managing director,
Aveng Steel

Focus	Performance
Improve profit performance	▸ Aveng Steel returned to profitability in second half; improved performance for full year despite sustained market challenges ▸ A profit improvement programme implemented at Aveng Manufacturing has not yet yielded the expected benefits
Maintain cash generation	▸ Strong working capital management by Aveng Steel yielded R59 million in operating free cash flow
Pursue opportunities in rail maintenance and upgrade in South Africa, sub-Saharan Africa (SSA) and Australia	▸ Aveng Rail and Aveng Infraset selected as preferred suppliers to rail rehabilitation project in Zambia. Awaiting commencement of other rail maintenance projects in SSA. Aveng Rail pursuing rail prospects with McConnell Dowell in Australia
Increase product, sector and geographic diversification to counter weak traditional markets	▸ Aveng ACS increased activity in power sector ▸ Aveng DFC increased market penetration in South America and re-entered Russian market ▸ Aveng Duraset increased exports to SSA
Selective investment to improve capacity and efficiency of operations	▸ R142 million invested in increased manufacturing capacity for construction materials and innovative new products

Buildings Commercial and civil

Roads & Rail Construction, tunnels and bridges

Oil and gas Plants and pipelines

Mining Open cut and underground

Marine Ports and sea infrastructure

Power Fossil fuel, renewable and hydroelectric transmissions

Water Reticulation, effluent and dams

Process & Industrial Buildings and plant

Strategic alignment

Manufacturing and Processing participates at all stages of Aveng's value chain.

The segment's strategy is to increase profitability by optimising the efficiency and technological capacity of its existing operations, while developing innovative new products or partnerships that enable it to increase its participation in the value chains of the markets it serves in South Africa, the rest of Africa and targeted international markets.

Aveng Manufacturing pursues revenue growth in local and international markets which offer viable returns and are aligned with the Group's strategy. It seeks to optimise profitability and manage risk by diversifying its operations across a range of sectors and geographic markets.

In 2017, Aveng Manufacturing focused on:

- **Growing revenue by increasing the momentum of diversification into new sectoral and geographic markets.** The diversification of Aveng ACS into non-traditional markets, particularly power, mitigated the impact of the postponement of oil and gas projects. Aveng DFC strengthened its market penetration in South America and re-entered the Russian mining market in 2017, while its sales to the Australian and New Zealand mining sector continued to grow at a slow but steady pace. Aveng Duraset increased its exports of mining products to neighbouring countries in SADC. The contribution of non-traditional sectors to the revenue and profit of Aveng DFC and Aveng Duraset has increased in recent years. Aveng Rail and Aveng Infraset are actively pursuing opportunities in Mozambique, Zambia, Swaziland, Tanzania, and Australia together with McConnell Dowell, to compensate for the reduction of investment in South Africa.
- **Improving profit performance.** Aveng Manufacturing has embarked on a profit improvement initiative based on analyses of market opportunities, defence and growth of its market share in existing markets and pursuit of growth in new markets. The intervention will strengthen:
  - sales force effectiveness (training and mentoring undertaken to transform sales force into trusted advisers who understand client needs and can offer tailored solutions)
  - operational efficiency (shortening duration of equipment break-downs, reducing waste and modernising equipment to improve quality)
  - procurement efficiency (cost savings are being achieved by a focused programme with prequalified suppliers and supply agreements)
- **Selective investment to improve capacity and efficiency of operations.** Capital expenditure of R142 million invested in a new concrete roof tiling plant in KwaZulu-Natal and a range of innovative new products to improve efficiency and support diversification.
- **Fulfilling clients' empowerment requirements.** Compliance with empowerment requirements in the domestic public and private sectors is critical to Aveng's competitiveness. Aveng Manufacturing is entering into partnerships with empowered businesses to strengthen its position in the coal and platinum mining industries and ensure compliance with the Mining Charter. The appointment of a black-owned distributor to power stations will position Aveng Manufacturing for the ongoing supply of valves, services and other control solutions to the power sector, and the operating group is working on the development of black women as part of its supply chain in the sector.

Performance continued

Operational review continued

Manufacturing and Processing continued

Financial highlights

Rm	2017	2016	Variance (%)
Gross revenue	**7 936**	8 794	(10)
Gross earnings	**492**	505	3
Net operating earnings	**(3)**	(70)	96
Operating free cash flow	**(20)**	275	>(100)
Capital expenditure:	**142**	139	2
Aveng Manufacturing	**123**	126	2
Aveng Steel	**19**	13	46
Total assets	**4 717**	5 470	(14)
Total liabilities	**1 856**	2 162	(8)

Aveng Manufacturing manufactures and supplies construction products to the construction sector, services and engineered solutions to mining, water, oil and gas and construction clients, and rail construction and maintenance services to the transport sector. Aveng Steel supplies a wide range of products to the steel, construction and automotive industries from its steel yards, processing service centres, manufacturing and fabrication plants.

Aveng concluded the sale of 70% of its Steeledale business, effective 1 January 2017, and incorporated Aveng Steel Fabrication into Aveng Trident Steel. Negotiations for the disposal of Aveng Trident Steel were terminated as an agreement on acceptable value was not reached.

During 2017, Aveng Trident Steel maintained its focus on:

- **Improving profit performance**
  Continuous efficiency improvements enabled Aveng Trident Steel to return to profitability during the second half and achieve EBITDA break-even for the full year.
- **Maintaining cash generation**
  Disciplined management of working capital, including inventory optimisation and strong debt collection, contributed to the generation of R59 million in operating free cash flow.

Key actions and focus areas

In alignment with the Group's strategy, Aveng Manufacturing will focus on the following strategic imperatives as it pursues its vision to be a leader in the provision of manufacturing solutions to its core markets in South Africa, other markets in the SADC region, South America, Australia, New Zealand and Russia:

- Maximise benefits of the profit improvement programme
- Complete factory optimisation to achieve adequate capacity in low cost manufacturing facilities
- Achieve an optimal mix of revenue and profit contributions from international business and products, services and projects to maximise the gross profit margin
- Pursue geographic and technology partnerships to strengthen competitiveness in core markets
- Achieve preferred supplier status

2017 performance

The Manufacturing and Processing operating segment comprises Aveng Automation & Control Solutions (ACS), Aveng Dynamic Fluid Control (DFC), Aveng Duraset, Aveng Infraset, Aveng Rail, Aveng Trident Steel and Aveng Steeledale (for six months).

Operational and financial performance

Operating in generally weak and competitive markets, the business units of **Aveng Manufacturing** continue to seek alternative growth opportunities in non-traditional sectors and geographic markets and have sought to protect their financial position with ongoing cost management and efficiency improvements.

The domestic oil and gas sector remained subdued during the year under review, with major projects postponed and limited availability of new work. **Aveng ACS** sought alternative opportunities in the power, water and mining sectors. As a result, Aveng ACS experienced an increase in demand for its services and products in the refurbishment and maintenance of Eskom coal-fired power stations, while demand in the competitive industrial processing sector (paper, chemicals, beverages, sugar) remained stable. However, Aveng ACS's revenue decreased to R408 million and operating profits decreased by 27% to R11 million, largely due to lower levels of activity in the oil and gas sector.

Some of the projects postponed in the sector are expected to commence in 2018 and Aveng ACS is a preferred supplier for a new gas plant Sasol plans to develop in Mozambique.

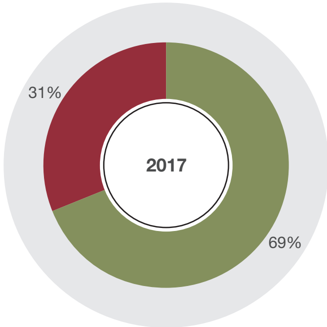
Gradual renewal of the mining sector stabilised demand for mine support products but ongoing cost pressures experienced by mining clients kept prices at low levels in a competitive market. Aveng ACS and **Aveng DFC** were both adversely impacted by a decline in demand for their products and solutions in the minerals processing industry. Aveng DFC benefited from higher demand for its water valves in the municipal infrastructure development sector (mainly maintenance, sewer network extension and water valves), and it continued to grow its international presence, with increased market penetration in South America and Australia, and the award of a contract to supply water valves to a Russian mine. 52% of Aveng DFC's products are now being exported. This contributed to a 3% increase in its revenue to R481 million, but operating profits declined significantly to R29 million.

The revenue of **Aveng Duraset** decreased by 7% to R454 million as market demand declined from both local and export mines, resulting in an operating loss of R21 million (2016: R4 million loss). Ongoing efficiency improvements were necessary to counter the sustained margin pressure in a competitive, highly commoditised domestic market for Aveng Duraset's mining products, where client decisions based largely on price make it difficult to differentiate higher value products, and where revenue growth tends to reflect increased share of a static market.

A partnership established with empowerment company RAPX resulted in a contract to supply mining products to Exxaro. Aveng Manufacturing is exploring other B-BBEE initiatives to strengthen its position with platinum mines in the Rustenburg area and ensure its compliance with the Mining Charter.

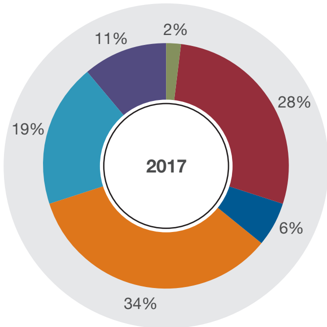
In its efforts to diversify beyond the domestic market, Aveng Duraset is experiencing an increase in the export of its mining products to sub-Saharan Africa, with most demand from Zimbabwe, Zambia, Tanzania and Ghana. Exports accounted for 6% of revenue in 2017 for Aveng Duraset.

Revenue by operating group



- Aveng Steel
- Aveng Manufacturing

Aveng Manufacturing Revenue by industry



- Mining
- Water and environmental
- General infrastructure
- Rail / transport
- Other
- Power

Performance continued

Operational review continued

Manufacturing and Processing continued

The completion of major railway projects and reduction in maintenance spending by Transnet Freight Rail, together with the postponement of new projects across sub-Saharan Africa adversely impacted the rail and concrete materials business units serving the railway construction and maintenance sector. The revenue of **Aveng Infraset** declined by 13% to R744 million and the business unit reported a R7 million loss as a result of a sharp decline in railway sleeper volumes.

Demand for construction materials from the building industry (roof tiles, ridging, paving) and municipal sector (piping, culverts) remained strong, but not sufficient to offset the decline in demand from the rail sector.

In response, Aveng Infraset embarked on a significant cost saving programme, closing its factories in Meyerton (road kerbs) and De Aar (railway sleepers) and relocating equipment from De Aar to the Brakpan facility. The business unit invested selectively in additional capacity in KwaZulu-Natal for roof tiles that remain high in demand, and efficiency improvements were undertaken in other operations, including Rossway paving and roof tile plant. The roof tile facility is on schedule for commissioning in the first half of the 2018 financial year.

Aveng Rail reported a 52% decline in revenue and a 33% decrease in operating earnings to R27 million due to the completion of high volume, low margin rail construction activities undertaken in 2016 and limited demand for new rail construction projects. The 80 km Majuba railway line project was successfully completed in April 2017. Although Transnet resumed mechanised track maintenance after suspending it in 2016, opportunities were limited to the general rail network.

Rail maintenance projects awarded in Namibia and Mozambique were postponed to 2018 and other opportunities in Zambia and Swaziland are also expected to commence in the new financial year. In Zambia, Aveng Rail and Aveng Infraset were selected as preferred suppliers to a rail rehabilitation project to be undertaken by Bombardier, while discussions are under way with China Rail for Aveng companies to participate in the construction of new railway lines in Zambia and Swaziland. Aveng Rail is also pursuing rail prospects with McConnell Dowell in Australia.

Having relocated the steel fabrication business to its Roodekop facility in 2016, **Aveng Trident Steel** responded to sustained challenges in the steel sector by continuously rightsizing its operations relative to market opportunity, and maintaining a strong focus on working capital management. By optimising stock levels and increasing customer debtor collections, the business continued to generate cash during a down-cycle, even when it was not profitable.

Safety, health and environment performance

Aveng Steel achieved a record LTIFR of 0,16 (2016: 0,51) and an AIFR of 9,67 (9,89) as new employees at the Roodekop facility adopted sound safety practices. Aveng Trident Steel achieved 1,7 million man-hours without an LTI.

Aveng Manufacturing recorded a LTIFR of 0,49 (2016: 0,47) and an AIFR of 4,08 (2016: 2,91). Two of its business units achieved record injury-free performances. ACS reached six years without a lost-time injury (LTI) and DFC reached two years without a LTI.

Duraset received a section 24G directive from Gauteng Department of Agriculture and Rural Development (GDARD) relating to the thermal zinc diffusion process. Aveng Manufacturing is in the process of addressing the requirements in order to obtain the required licence authorisations.

Human capital performance

Aveng Manufacturing strengthened its executive leadership team with the appointments of new managing directors for Aveng DFC and Aveng Duraset, both with effect from 1 June 2017.

The business also appointed a new sales and marketing executive and a technical director to improve sales force effectiveness and operational efficiency, and boosted its human resource capacity across the spectrum with a combination of new appointments, training and transformation.

Looking ahead

- Demand in the domestic market for rail maintenance and sleepers is expected to remain subdued in 2018. Aveng Manufacturing has submitted bids for new Transnet Freight Rail maintenance contracts and its existing contracts have been extended for another year, pending the award of the new contracts. Aveng Manufacturing is monitoring progress in the development of plans for the anticipated expansion and extension of the Gautrain network. In sub-Saharan Africa, Aveng Rail and Aveng Infraset are preferred suppliers to a rail rehabilitation project to be undertaken in Zambia, while discussions are under way for Aveng companies to participate in the construction of new railway lines in Zambia and Swaziland. Further afield, Aveng Rail is actively pursuing rail prospects together with McConnell Dowell in Australia.
- Consolidation in the mining sector has created opportunities for innovative suppliers to win market share by offering solutions that reduce mining costs. If the upturn in mining gains momentum, demand for mine support products will improve over the next 18 months. New acquisitions or partnerships that offer competitive technology or market access are in development. The RAPX empowerment acquisition has already yielded work in the coal industry. Plans for another empowerment arrangement to serve platinum mines in Rustenburg are well advanced.
- In the power sector, Aveng Manufacturing has addressed the empowerment requirements associated with growing demand for its products and services in the maintenance and refurbishment of Eskom power stations. While the Group's current black ownership fulfils Eskom's requirements, it has applied additional actions, such as appointing a black-owned distributor in Mpumalanga to strengthen its position in the ongoing supply of valves, services and other control systems to power stations. Aveng Manufacturing is also preparing black women-owned businesses for inclusion in its supply chains.
- Demand in the industrial processing sector remains stable, but competitive, and Aveng Manufacturing has recruited and trained appropriate sales and marketing staff to strengthen its market share.
- The domestic steel sector is expected to receive some respite from increased government protection for the primary and downstream industries. A 12% safeguard duty on hot rolled coil, the main steel product consumed in South Africa, was announced in July 2017. This is over and above the 10% customs duties applied in 2016. Although the infrastructure investment market, including renewable energy development, remains an area of concern, signs of improvement in the mining sector and stabilisation in the automotive sector, may provide some opportunity for the steel sector.
- Geographic diversification will remain an important strategic lever in 2018. South Africa and the rest of Africa continue to offer increasing opportunity for the export of valves, mine support and automation instruments or products. Oil and gas opportunities in Mozambique offer Aveng ACS ongoing work in that sector which remains subdued in the domestic market. There is growing demand from Russia and South America for valves from Aveng DFC.
- The profit improvement programme implemented by Aveng Manufacturing is expected to strengthen financial performance in 2018.

Sustainability overview

To create value for its stakeholders, Aveng recognises that it is necessary for the Group to be financially stable and conduct its activities in a manner supportive of sustainability. This requires efficient and ethical management of all its resources and its stakeholder relationships.

Aveng reports on the economic, environmental and social impacts of its activities in its sustainability overview which is published on the Group's website www.aveng.co.za.

The overview communicates the Group's sustainability performance against its strategy and specific goals and targets in six key areas: safety, health, environment, human resources, transformation and corporate social investment.

Safety. Aveng operates in a diverse, complex environment and employs a large workforce. The safety of our employees is a core value and integral to the way the Group conducts its business. Employee safety and wellbeing is critical to our ability to embed a high-performance culture and achieve our aspirational goal of "**Home Without Harm Everyone Everyday**". In 2017, the Group did not meet its ultimate safety goal of zero harm, but demonstrated ongoing improvement in key underlying activities that create the conditions necessary for safer work environments.

Health. Aveng recognises the importance of protecting its employees, contractors and other stakeholders who visit its workplaces from occupational health hazards. The Group strives to improve its approach to health in line with its duty of care by identifying health risks associated with its work processes and implementing measures to manage these risks. We seek to ensure that sound practical standards of health and wellness behaviour and performance are adopted and achieved across our operations and activities.

Environment. Aveng recognises its potential impact on the natural environments in which it operates and it continues to work systematically to improve its environmental management and performance, particularly in the areas of emissions reduction, energy efficiency, water conservation and biodiversity management. In 2017, the Group recorded no major environmental incidents but experienced an increase in minor incidents, primarily hydrocarbon spillages which were consistent with the business scope and industry profile. Aveng addresses environmental incidents by implementing effective remedial actions and improving its environmental practices in compliance with client requirements and relevant legislation.

Human resources. Aveng's human resource management seeks to enable effective processes to attract, develop, performance manage, reward and retain high-performing employees. A key focus area involves equipping managers with the skills and capability to engage with employees, thereby ensuring clear accountabilities and line of sight between organisational objectives and the outputs required of each employee to meet Aveng's strategic objectives.

Transformation. Transformation remains a key element of Aveng's strategy and underpins its sustainability. The South African operations have a level 3 B-BBEE status, valid until 18 October 2017 and measured against the revised Codes of Good Practice. Measurement of our B-BBEE status will revert to the revised construction sector charter when it is gazetted. The Group made significant progress in implementing key transformation initiatives in 2017, including increasing black and black women ownership through the sale of majority stakes in the construction and steel businesses; identifying, training, recruiting and retaining black professionals; supporting socio-economic developments with an emphasis on localised transformation in the communities within which Aveng operates; and creating opportunities for black-owned emerging micro-enterprises and qualifying small enterprises to access Aveng's procurement expenditure.

Corporate social investment. Aveng has a vested interest in the welfare of its employees, communities and local economies in which its operates and embraces its responsibility to play a meaningful role in their socio-economic development. Despite the financial challenges Aveng faced in 2017, the Group maintained the financial support of its two flagship projects which provide maths and science education to learners in disadvantaged areas, and remained a leading socio-economic development contributor in its sector.

Comprehensive detail on Aveng's performance in each of these areas, as well as the Group's risk-based approach to sustainability and sustainability reporting and governance, is provided in the online sustainability overview.

During 2017, Aveng embarked on a strategy review to improve its safety, health and environment (SHE) performance. A SHE strategic framework was adopted and implemented throughout the organisation. The framework is informed by the Group's SHE policy and guided by the SHE management standard and reporting and governance frameworks. Strategic objectives are driven by an Aveng SHE Plan on a Page (PoP) which provides Aveng operations with measurable deliverables and performance verification under each SHE and reporting and governance focus area. Additional detail on the PoP is provided on the next page and in the sustainability overview at www.aveng.co.za.

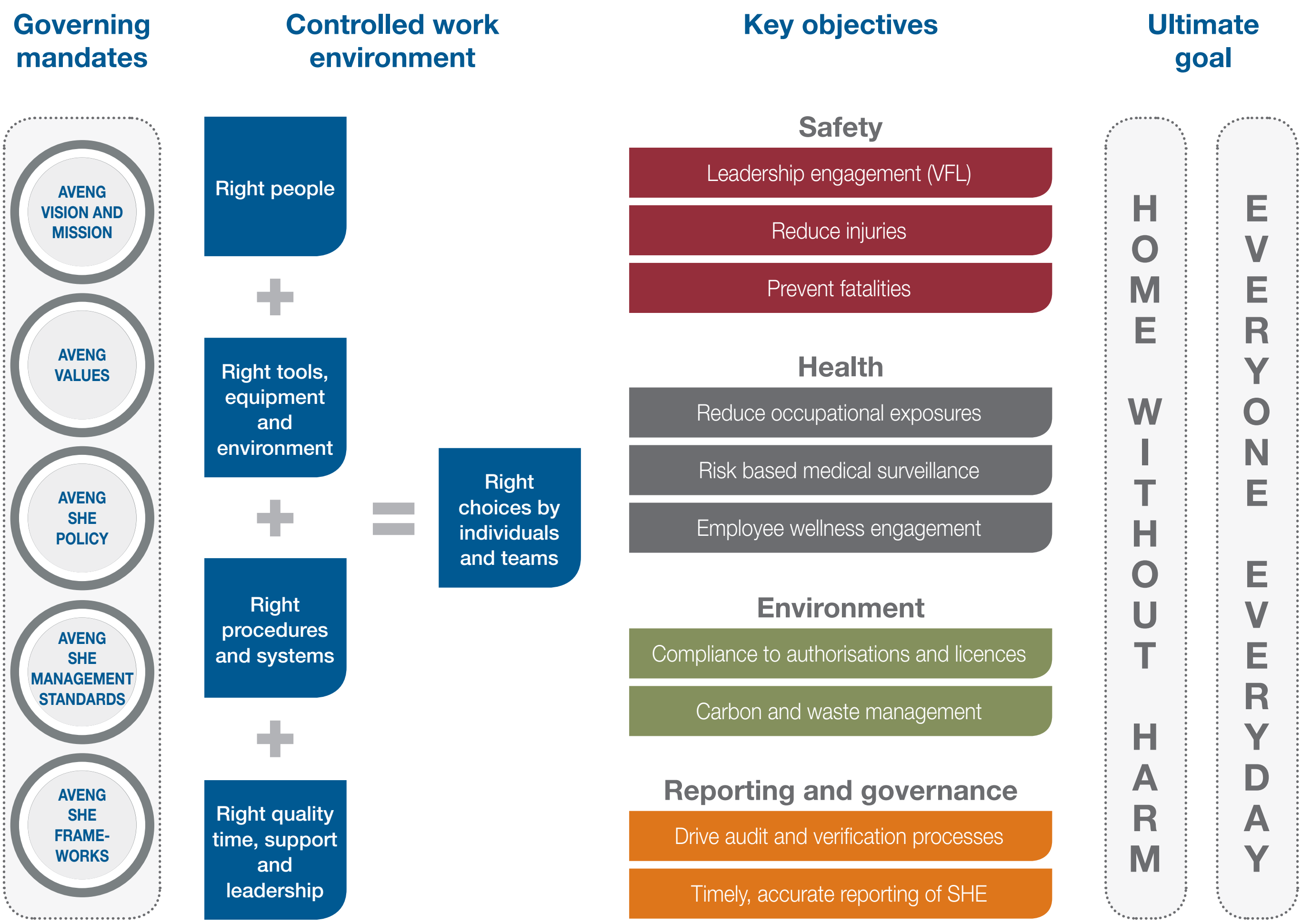
Vision
To be a leader in the delivery of infrastructure, industrial and resource solutions in our core markets

Mission
We create and deliver infrastructure, industrial and resource solutions

Purpose
Providing a better life

HOME WITHOUT HARM
EVERYONE EVERYDAY

SHE key focus areas



Corporate governance

The purpose of governance

The context of governance in Aveng

Aveng is registered in South Africa in terms of the Companies Act, 71 of 2008 (Companies Act) and files returns with the Companies and Intellectual Property Commission (CIPC). Aveng is a public company listed on the JSE, and is mandated to create value on behalf of its shareholders.

Stakeholders need to know that a company is well managed, and this is the aim of corporate governance. The Aveng Group's compliance is benchmarked against the framework of the King Code of Governance for South Africa. With the launch of King IV, a team of managers and executives has been tasked to review how these principles are best applied in the context of Aveng's economic, social and environmental sustainability.

The Aveng Code of Business Conduct communicates the Board's commitment to an ethical culture. Management is tasked to ensure compliance with the code, and all employees and representatives are expected to act in a manner that inspires the trust and confidence of the general public. Commitment to the Code of Business Conduct is embedded in the Board Charter as well as board and committee meetings.

The phrase "Home Without Harm Everyone Everyday" articulates Aveng's core value, for the people of Aveng work in an industry where they mine, engineer, build, and manufacture for their daily living. Safety is the first agenda item at every board meeting and executive committee meeting.

The Board needs an ongoing relationship with its stakeholders to understand their legitimate needs and expectations. This understanding helps the executives to develop better strategy. For this reason, relationships are another recurring item on the Board's agenda.

Governance structure

Principal accountability

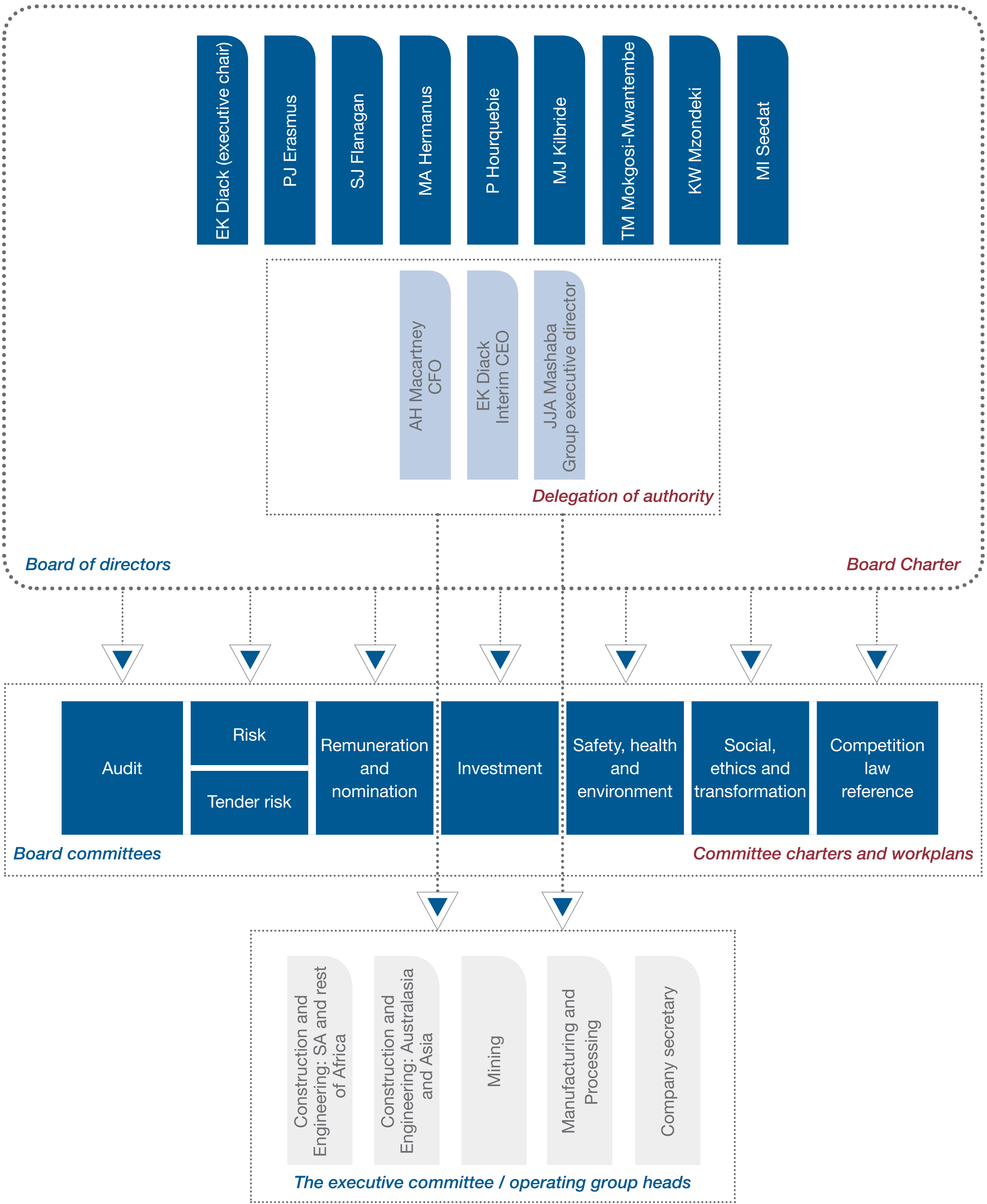
The Board makes itself collectively responsible for the success of the Company. It aims to provide stakeholders with confidence that the Group is being managed ethically, with robust operations that function within prudent risk parameters.

The International Integrated Reporting Council has extended the definition of capital beyond economics to the six capitals: financial, manufactured, human, intellectual, natural, social and relationship capital. The Board must not only consider how it makes money, but show how the duty of care has been applied in its judgement calls. The Board has formed sub-committees to ensure that its collective mind has been adequately applied to the complexities of this duty.

The Board is satisfied that for the year under review, it has complied with the terms of its charter.

Delegated accountability

The Board has delegated management accountability to the chief executive officer through a delegation of authority framework. The chief executive officer directs the business and ensures strategic implementation across the varied operating groups. The chief executive officer is assisted by the executive committee.


EK Diack (executive chair)
PJ Erasmus
SJ Flanagan
MA Hermanus
P Hourquebie
MJ Kilbride
TM Mokgosi-Mwantembe
KW Mzondeki
MI Seedat
AH Macartney CFO
EK Diack Interim CEO
JJA Mashaba Group executive director
Delegation of authority
Board of directors
Board Charter
Audit
Risk
Tender risk
Remuneration and nomination
Investment
Safety, health and environment
Social, ethics and transformation
Competition law reference
Board committees
Committee charters and workplans
Construction and Engineering: SA and rest of Africa
Construction and Engineering: Australasia and Asia
Mining
Manufacturing and Processing
Company secretary
The executive committee / operating group heads

Corporate governance continued

The Board

Mandate – the board charter

The Board has a formal charter which, among other things, sets out its roles and responsibilities in areas such as ethical leadership, strategy, financial management, risk management, compliance, sustainability and governance in general. The charter addresses the duties of individual directors as prescribed in common law and the provisions of the Companies Act. The charter addresses important matters such as the separate roles of the chairman and the chief executive officer, the focus on stakeholder relationships, the implementation of a proper delegation of authority and the composition and evaluation of the Board and its various committees.

Corporate governance

The Board of directors of Aveng Limited is the Group's highest decision-making body. Day-to-day responsibilities for corporate governance are overseen by management who report regularly to the Board and board committees. The Board oversees processes to ensure that each business area and every employee is responsible for acting in accordance with sound corporate governance principles in their relationships with management, shareholders and other stakeholders.

The chairman of the Board and the chairmen of the board committees play an active role in all corporate governance matters and regularly interact with the company secretary, executive directors and management.

Appointments

The aim is to have a vibrant Board with directors whose skills complement each other so that they can constructively challenge management's strategies and evaluate the performance of the Group against the strategies and established benchmarks. The formal process for nominating new candidates for appointment as directors to the Board is overseen by the remuneration and nomination committee. Any appointments of directors are approved by the Board as a whole and newly appointed directors are expected to stand down at the first annual general meeting following their appointment, for election by shareholders.

Inductions and ongoing development

New directors are required to take part in a formal induction programme immediately after their appointment to the Board. This training is intended to provide new directors with in-depth knowledge of the Company's activities and organisation, the environment in which it operates and sustainability issues, and introduces them to senior managers.

There is a growing expectation for non-executive directors who sit on remuneration committees to be more specialised. This is an obligation which will require more attention to training and onboarding, as well as increased attention to updates in remuneration trends. These specialised directors need to be well versed in the applicable terms of reference and relevant corporate governance principles (specifically King IV) and global principles. They must understand the business environment, be intellectually agile. For this reason, professional development of remuneration and nomination committee non-executive directors will be addressed in the new year.

Other directorships

Non-executive directors may accept appointments to other boards, including industry-related organisations, government entities and charitable organisations, provided their other commitments do not impact their ability to discharge their duties to Aveng. Non-executive directors are not awarded share options or any benefits other than directors' fees. No service contracts exist between the Company and non-executive directors.

Access to information and resources

From time to time, members of the executive committee attend board meetings by invitation. The independent non-executive directors also interact regularly with executive management through site visits and the tender risk committee.

All directors of the Board are provided with unrestricted access to the company secretary, management and company information. Directors are also provided with the requisite resources to discharge their duties and responsibilities, including access to external professional advisers, at the expense of the Company.

The Board provides strategic leadership to the Group. It independently reviews the business models of the operating groups to promote accelerated execution of the approved plan.

Retirement by rotation

In compliance with the provisions of the Company's memorandum of incorporation, one-third of all of the directors are expected to retire by rotation and, if eligible and willing to continue to serve as directors, offer themselves for re-election by shareholders. Details of directors retiring by rotation are set out in the notice of the annual general meeting.

Delegation of authority

The Board has defined levels of materiality in respect of strategy, financial matters, risk, compliance, sustainability and governance. Board committees have been constituted to assist the Board in discharging its duties in these respects. The Board revisited and approved the delegation of authority framework to formalise management's responsibility and accountability for the decisions and actions they take. The delegation of authority is rolled out to all operating groups.

Share dealings by directors and officers

Aveng implements a voluntary closed period for one week prior to the mandatory closed period commencing at the Group's year-end on 1 July until the release of the year-end results. As required by the JSE Listings Requirements, a closed period is also implemented at half-year until the release of the interim results.

During closed periods, directors and designated senior executives may not deal in the shares or in any other instrument linked to the shares, of the Group.

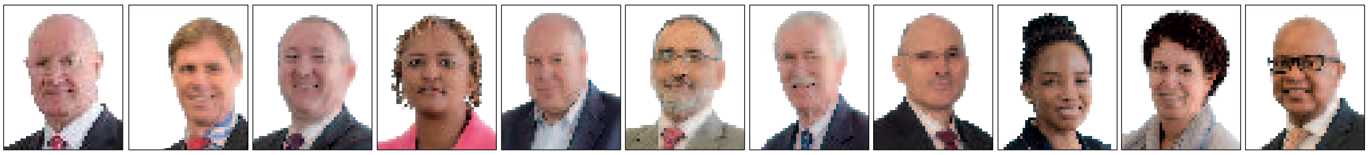
In addition, they cannot trade in the Aveng shares during any period where they have access to unpublished price-sensitive information. To ensure effective compliance, it is a requirement that no trade in Aveng Limited securities by directors and designated senior executives may take place outside of the closed periods without prior written approval from the chairman for directors and the chief executive officer for executives.

Directors and senior designated employees are required to instruct their portfolio or investment managers not to trade in Aveng Limited securities without their written consent. They are required to advise the company secretary immediately after the trade has taken place, who will then report the transaction to the JSE Limited through the Securities Exchange News Service, within one working day.

Identical rules and restraints apply where Aveng Limited securities are held by immediate family members of directors, or senior designated employees, or by trusts in which directors or senior designated employees or their families are beneficiaries.

Corporate governance continued

Composition



Independence	I NED	I NED	ED	I NED	ED	I NED	I NED	I NED	NED	I NED	ED
Meeting attendance	5/5	5/5	5/5	5/5	5/5	5/5	5/5	5/5	5/5	5/5	5/5
Gender	M	M	M	F	M	M	M	M	F	F	M
Transformation	W	W	W	B	W	B	W	W	B	B	B
Tenure – From New Perspectives to Deep Knowledge	1,7 y	1,9 y	2,8 y	3,5 y	3,6 y	5,0 y	5,0 y	6,3 y	6,6 y	7,8 y	9,8 y

Median – 4,9 years

Board size

The Board of directors had only one change in the year with the retirement of AWB Band on 19 August 2016. This reduced the Board size to 12 members. In May 2017, the remuneration and nomination committee considered the size of the Board. The current Aveng Board is larger than the average construction sector board, but given the diversity of operations and operational challenges, the size of the Aveng Board was deemed appropriate.

On 22 September 2017, Mr Kobus Verster resigned as CEO, reducing the size of the Board to 11 members. The position of chief executive has been assumed by the executive chairman until a new CEO is appointed.

Independence

The executive versus non-executive director mix is appropriate. The independence of non-executive directors is evaluated annually by the remuneration and nomination committee against criteria set out in the Companies Act and King Code of Corporate Governance. The strong independence component of the Board ensures that no one individual has unfettered powers of decision-making and authority. The majority of directors are independent. This year Ms Mokgosi-Mwantembe is not counted as independent due to a shareholding in the Kutana group of companies.

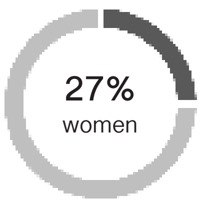
On 23 August 2017, Mr Eric Diack assumed a limited duration role as executive chairman of Aveng. At the end of the contracted period of executive duties, Mr Diack will continue as a director but will not be classified as independent for a period of three years.

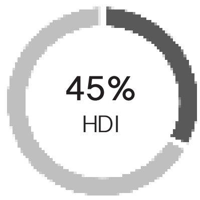
Role of chairman of the Board

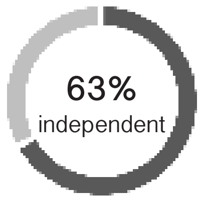
In accordance with King IV and the JSE Listings Requirements, the roles of chairman and chief executive officer are separated. There is a clear division of responsibilities within the Board and the Company, ensuring a balance of power and authority.

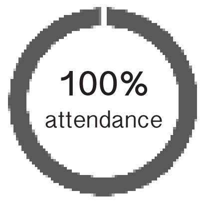
The chairman is responsible for the overall effectiveness of the Board and its committees and this includes fostering a culture of openness and constructive dialogue with the Board. His direction ensures that the Board provides effective leadership, maintains ethical standards and is responsible, accountable, fair and transparent. He makes himself available to shareholders and other stakeholders for discussions on corporate governance concerns and ensures that strategies are economically, socially and environmentally viable.

While the role of the Aveng chairman is usually assumed by an independent non-executive director, the Board considered the challenges facing the Company and its executive management and appointed Mr Eric Diack as executive chairman to support the chief executive and help the Group realise its significant value. At the same time Ms Kholeka Mzondeki was appointed lead independent director. The chief executive's resignation one month after this appointment has created a situation where Aveng has had to apply for dispensation from the JSE for Mr Diack to temporarily assume the duties associated with both roles until the new CEO is appointed. The JSE has granted the dispensation.









Company secretary

Ms M Nana is the appointed company secretary.

Her primary role is to ensure that the Board is cognisant and aware of its fiduciary duties and responsibilities. The company secretary plays a key role in keeping the Board aware of relevant changes in legislation and governance best practice.

Other key performance areas of the company secretary include overseeing the induction of new directors as well as the ongoing education of directors. The company secretary is also secretary to the board committees and the Board has unfettered access to the services of the company secretary.

An annual evaluation of the company secretary was carried out by the audit committee, on behalf of the Board.

The results of the evaluation confirmed that the company secretary continues to demonstrate the requisite level of knowledge and experience to carry out her duties. The Board is also comfortable that she maintains an arm's length relationship with individual directors.

Board meetings

The Board convenes each quarter to attend to the requirements of the board work plan which stipulates regular material reviews and approvals for consideration. Additional meetings are scheduled to consider the Group's strategy and operational business plans.

Committee composition

Following the appointment of Mr Eric Diack as executive chairman, governance structures required that he resign from the role of chairman and member of the audit committee. Mr Peter Erasmus and Mr Philip Hourquebie, both independent non-executive directors, were appointed to the audit committee, with Mr Hourquebie assuming the role of chair of the committee.

During the period, Mr Philip Hourquebie was also appointed to the remuneration and nomination committee and the social, ethics and transformation committee.

Mr Sean Flanagan was appointed to the risk and tender risk committees.

When King IV is fully applied, the composition of the committees will again be reviewed.

Board race and gender policy

The JSE and King IV both require that a board race and gender policy be built into the compliance framework. The Board must set its own targets and timelines. At Aveng, succession planning is built into the proposed target as part of board rotation. The remuneration and nomination committee has set a minimum compositional framework of 40% black directors and three female directors.

The heavy construction industry, represented by SAFCEC has recommended that 38% of board members be from the historically disadvantaged sector. The minimum requirement of the Construction Charter is 20%. With 27% female representation, Aveng's Board is on par with the sector.

Tenure

Tenure of directors is considered to ensure that the Board is regularly refreshed while maintaining a stable leadership and corporate memory. The tenure of each board member is considered in the context of their independence, gender and ethnicity. It is pleasing to report that a mix of fresh ideas and corporate memory is shown across all measurements.

Corporate governance continued

Compliance

Aveng's compliance framework

Compliance reports are presented to the audit and social, ethics and transformation committees quarterly and to the Aveng Board annually. The Board monitors compliance with:

- JSE Limited Listings Requirements: Aveng, as a JSE listed company is subject to, and remains compliant with, the JSE Listings Requirements in line with the advice of Aveng's sponsor, UBS South Africa Proprietary Limited.
- King Report on Corporate Governance for South Africa: During the year under review, Aveng continued to focus on applying the recommendations of King III and is satisfied that it has substantially applied these principles. At the same time, the Board has started preparing for the adoption of King IV. Additional information is available at www.aveng.co.za/aveng/ethics-and-governance/corporate-governance.
- Companies Act: The Companies Act aims to promote good governance and transparency in South African businesses. Aveng's social, ethics and transformation committee ensures compliance with all relevant governance provisions of the Act.
- Other legislation: A board-approved compliance framework is implemented by Aveng and its operating groups in line with an annual compliance plan. Key milestones are monitored by the audit and social, ethics and transformation committees for programme effectiveness.
- SAFCEC: Aveng is a member of the South African Federation of Civil Engineering Contractors which regulates the relationship between employers, employees and trade unions.

Statement of compliance: Aveng and its operating groups apply the governance principles of King III and continue to entrench and strengthen recommended practices in their governance structures, systems, processes and procedures.

Annual compliance certificate

The annual compliance certificate confirming Aveng's compliance with the JSE Listings Requirements has been completed and submitted to the JSE on 20 October 2017.

Legislative compliance

As part of Aveng's compliance management processes, training of employees remains a key initiative to ensure that the Group meets its compliance obligations and improves the way it conducts its business in the interest of its stakeholders. In addition, employee compliance training is an important component to the Group's commitment to be an effective and sustainable integrity-based organisation. For example, the Group conducted targeted training on topics including anti-bribery, corruption and anti-trust issues.

Competition law training

The Group's competition law training programme is an important tool which reinforces Aveng's commitment to eliminating anti-competitive practices. The competition law training is conducted online and ensures that employees undergo a rigorous education and certification programme in order to comply with competition laws of all countries and regions in which they conduct business. Refresher training is conducted annually. In 2017, 611 employees received competition law training.

Anti-corruption training

To continue promoting an ethical organisational culture within the Group, anti-corruption training was conducted across the Aveng Africa operations, by an independent, external company. The training focused on applicable anti-corruption legislation, employees' obligations in terms of Aveng group policies and key anti-corruption learnings through examples. The training content was developed after receiving feedback from an employee survey to determine the effectiveness of the Group's anti-corruption strategy. In total, 1 805 employees received anti-corruption training.

King IV readiness

In readiness for the launch of King IV, the Aveng company secretarial department enlisted an internal gap analysis to understand where to deregulate and what the best routes are to entrench the philosophies and the desired outcomes of effective control, legitimacy, good performance and an ethical culture. To this end, a steering team has been established, with each member designated a specific outcome, and the task of ensuring that the required reporting evidence is in place to show that the performance has been monitored and measured.

King III governance assessment (GAI) result

For the year under review, Aveng measured its compliance with King III against the IOD's governance assessment instrument. The following summarises the Group's results.

KING III COMPLIANCE SCORECARD
for the year under review

Board composition	AAA
Remuneration	AAA
Governance office bearers	AAA
Board role and duties	AAA
Accountability	AAA
Performance assessment	AAA
Board committees	AAA

AAA	Highest application
AA	High application
BB	Notable application
B	Moderate application
C	Application to be improved
L	Low application

100%
compliant

Control framework

Assurance

The ultimate aim of governance is assurance: comfort that the Group complies with relevant legislation and good practice (compliance); confidence that there are no material control breakdowns (internal and external assurance); assurance that risks are managed (risk management); and a positive assertion that the organisation is operating with integrity and fairness (ethics management). At Aveng this assurance is further contextualised against the Group's material matters to ensure that a responsive approach is adopted.

Aveng's combined risk management assurance model is being refined by the group commercial, internal audit and external audit functions, to give comfort that there are no gaps in the coverage of projects and that control mechanisms in the operating groups are adequate.

The three lines of defence model is embedded in the Aveng operating model. Control consciousness has improved significantly. An internal control forum is held regularly, chaired by the group finance director and attended by internal auditors, external auditors, and finance directors of the operating groups. Sign-off by all operating groups indicates that there is an acceptance of critical controls that must work and critical control workshops are held quarterly at the operating groups to help identify, document and evaluate these critical controls.

Internal and external assurance

Based on the recommendation of the audit committee, the Board considers and confirms the going concern status of the Group in preparation of the financial statements at both the interim reporting period and at year-end. The assumptions underlying the going concern statement include profitability, budgets, forecasts, cash flow and liquidity. The Board monitors the preparation, integrity and reliability of the financial statements, accounting policies and the information contained in the integrated report. While management is responsible for this process, it is independently monitored by the audit and risk committees.

Management performed an assessment of Aveng as a going concern considering: the budget for 2017 to 2020, budget risks in the order book, a conservative two-year liquidity forecast, the successful completion of the property deal, possible adverse market conditions, long-outstanding claims and debtors, labour difficulties, discontinued operations and other restructuring activities.

The lower than expected QCLNG award required the Board to take a step back and again review the solvency and liquidity position of the Group to ensure a fair presentation of the financial statements. The external auditor, EY, and the Board needed to be satisfied that the concerns raised by the auditor were not material issues. To provide a formal determination of the going concern assumption, KPMG was appointed to perform an independent review to validate the solvency and liquidity of the Group. On 22 September 2017 the Board reviewed the KPMG report and confirmed its comfort on the solvency and liquidity of the Group.

Statement of going concern: The directors have reviewed the Group's cash flow forecast for the year ended 30 June 2017. The cash and liquidity assessment has revealed that the business has sufficient liquidity. The directors are satisfied that the Group has access to adequate resources to continue as a going concern and accordingly the audited consolidated financial statements are prepared on a going concern basis.

Risk management

The risk committee continuously reviews the Group's risk management structures, systems, processes and procedures. Management is accountable to the Board for integrating risk management into the day-to-day activities of the Group.

The internal audit function is overseen by the audit committee and guided by the internal audit charter, which is approved annually by the audit committee. Internal audit has the expertise to carry out independent detailed project reviews should significant concerns arise at board committee level.

Statement on risk controls: The risk committee, on behalf of the Board, confirms that there is no reason to believe that there were any material internal control or risk management shortcomings during this financial year that have not been addressed or are in the process of being addressed.

Corporate governance continued

Control framework continued

Ethical leadership and corporate citizenship

Ethics is a practical, indeed survival, matter in business. Clients, shareholders and stakeholders must have the assurance that they can depend on the character and integrity of Aveng. Aveng's Board considers sound corporate governance structures and processes pivotal to delivering sustainable growth in the interest of all stakeholders.

Fair play and corporate responsibility have to be positive and continuous, particularly in the diverse industries in which Aveng operates. Anti-competitive behaviour, bribery and corruption are risks that are managed continuously, with the Board embedding a rigorous accountability culture and comprehensive processes. Positive communication messages address reputational issues and bolster growth opportunities.

Before any bid is submitted, declarations of no anti-competitive actions or transgressions of the Aveng Code of Ethics are made to the tender risk committee, with a similar process for all smaller bids approved at operating group level.

At each board meeting, directors affirm their commitment to the Aveng Code of Business Conduct. Top leadership takes this commitment seriously and directly addresses any unethical behaviour in operating activities. Further, integrity and character are key factors in every hiring and partnering decision. All prospective executive employees are required to sign a declaration that they have not participated in anti-competitive behaviour before a formal offer will be made to them. On the whole, a zero-tolerance to fraud policy is employed within the Group.

Statement of commitment to ethics management: The Board is committed to providing effective and ethical leadership characterised by responsibility, accountability, fairness and transparency. The Board accepts its responsibility for ensuring that management nurtures a culture of ethical conduct and establishes the correct tone at the top in respect of the Group's values.

Board insight

The membership of the Board reflects the balance of skills and experience required to fulfil the objective of the Group. A clear understanding of the diverse industries and specific challenges of each business unit is necessary for the Board to provide insightful direction to the Group.

2017: Key governance initiatives in support of operations

The following initiatives supported communication between the Board and the Group's operating divisions:

- Board site visits are conducted twice a year in the week of the board meeting. In June 2017, the Board visited Kusile power station and Eskom balance of plant (BOP) sites. In November 2016, the Board visited the Mining Training Centre and Welding School at Jet Park.
- Aveng tender advisory committee supports the tender process. A complete tender review is performed weekly by management, who then recommend projects to go forward to the tender risk committee.
- Informal business update sessions are held in the months between board meetings to ensure board members are kept abreast of current issues in the Group.
- Key issue sessions are held at the chairman's request. Board members are invited to sessions for extended discussion on key topics. Most recently a risk committee working session looked at the group risk framework and another session discussed lessons learned on problematic projects.
- A finance and commercial committee (fincomm) was formalised to provide final approval for the recognition of uncertified revenue in any business unit of the Group and to request any adjustments it deems necessary. The fincomm provides appropriate oversight to ensure that projects are initiated promptly and comply with the operating group-specified controls during project mobilisation phase. Fincomm gives comfort that current and future contracts have been entered into on terms agreed to through the tender risk management process.
- A general concern raised by board members during the board evaluation interviews was that those members who are not directly involved in the risk and audit committees have little sight of many of the issues faced by the Group. All committee packs are therefore made available to all board members and all board members are welcome to attend any committee meeting for information purposes.

Key governance achievements, challenges and focus areas

Topic	Activities / discussion	Actions arising	Continued focus
Strategy	Two-day off-site meeting in December 2016 to discuss strategy and the group business model. Each operating group presented an updated plan to the Board for review, input and approval. The Board assessed the Company's capacity, competence and culture with a view to completing the turnaround and sustaining it in the current economic environment.	Management undertook a process to align operating group strategies and develop a clear articulation of the strategy to internal and external stakeholders. The strategic pillars initiative was recommended as a structure through which to implement and entrench the strategy.	On 2 December 2016, the Board confirmed a group business model with a strong corporate centre providing guidance and direction.
	Shift from recover and stabilise phase to position for growth by building a resilient company.	Liquidity and risk have been managed closely while the group's structure, processes and people are strengthened. Legacy issues continue to be managed.	Management reviews legacy issues and action plans each month to maintain high-level focus on risk management and growth promotion.
Board evaluation	In August 2016 the chairman conducted one-on-one interviews with each of the board members.	A key matter that emerged was that some board members who are not members of all the board committees felt they did not have sufficient insight into the key critical issues. To resolve this we make all committee packs available to all board members and they are all invited to attend all committee meetings as observers. Site visits were arranged including an extensive visit for new board members.	The upcoming evaluation will be informal and will include a facilitated session. The chairman will have an informal discussion with each board member and then an external facilitator will have a session with each individual so that they can give their honest views on what is working and what needs to change. This will be followed by a two-day workshop in which the external facilitator will synthesise the feedback received and members will have an opportunity to agree on how matters raised should be addressed.
Leadership and employees	Significant senior leadership changes in McConnell Dowell.	An engagement survey.	Ongoing capability reviews of key and critical staff which includes project management capability.

Corporate governance continued

Frameworks for governance

A summary of board committee initiatives during the period under review

Abbreviations

Exco	Executive committee
Fincomm	Finance and commercial committee
GIA	Group internal audit
Remco	Remuneration and nomination committee
Risk	Risk committee
SET	Social, ethics and transformation committee
SHE	Safety, health and environmental committee
TRC	Tender risk committee

Key issues	Governance structure / process	Metrics and actions	Responsible entity
Stakeholder engagement and relationships			
Stakeholder engagement 	Stakeholder engagement structure	Stakeholder engagement initiatives are undertaken with key stakeholders and driven by operating group managing directors and group executive directors.	SET / management
	Roadshows	Management meets with shareholders and analysts to provide feedback on the steps taken to improve the management of risk and the financial performance of the business. This year they discussed human resource, remuneration and transformation issues.	Exco
	CEO roundtable	As part of the strategy to engage leadership across the Group, the CEO engages in a less formal setting with senior managers to discuss current issues in the organisation and solicit their input and commitment to resolving these issues.	
Employment equity 	Revised Codes of Good Practice and the Construction Charter	The Board is satisfied that the Group has a robust transformation plan to ensure that Aveng remains competitive in the industry.	SET
	B-BBEE strategic plans	Operating group managing directors present their three-year B-BBEE strategic plans to the social, ethics and transformation committee. Employment equity targets are integrated into the performance contracts of line management.	SET
	Section 43 and ILO Protocol Compliance Evaluation	Biannually the remuneration and nomination committee reports to the social, ethics and transformation committee on the Group's compliance with labour and employment laws, such as the ILO Protocol on Decent Work.	Remco SET
	Transformation roadshows	Transformation roadshows are held across the Group with both suppliers and line management to enlighten, empower and enable them to achieve B-BBEE strategic imperatives.	
	Fronting interventions	Training and awareness sessions provide greater awareness of fronting. Group-wide interventions and training on enterprise and supplier development have been completed, centralising preferential procurement reporting and monitoring within centre-led procurement.	
Safety 	Safety, health and environment dashboard	A graphic dashboard represents progress made with initiatives and key indicator trends.	SHE

Key issues	Governance structure / process	Metrics and actions	Responsible entity
Risk and opportunities			
Effective identification and assessment of material matters	Risk register	Measures progress achieved on recorded risk mitigation actions.	Risk
	Top 10 business risks	Reflects key issues facing the Group, particularly those that affect more than one part of the organisation. Proposed actions and progress are indicated for the relevant operating group to provide a clearer overview of the group-wide risk landscape.	Risk
	Control Self-Assessment (CSA)	Performed by management and reviewed by group internal audit. Holds staff accountable where controls have been certified as being performed.	Management GIA
Problematic contracts	Project reviews	Project and risk reviews undertaken with feedback and actions developed in consultation with operating groups.	Risk
	Project dashboard	Dashboard of all projects being executed across the Group illustrating the coverage provided by group internal audit as well as other lines of defence. Aim is optimising and embedding a risk and controls culture.	GIA Risk
	Project assurance framework	A detailed framework defining the minimum governance requirements from a risk management perspective. Early warning protocols.	Risk
	Finance and commercial committee (fincomm)	Fincomm meets monthly to provide appropriate oversight and comfort that: (i) uncertified revenue is recognised in terms of the group policies on revenue recognition and is financially and commercially recoverable at initial recognition and future re-measurement dates; (ii) projects are initiated promptly and comply with the operating group-specified controls during project mobilisation; and (iii) all current and future contracts have been entered into on terms agreed to through the tender risk management process.	Fincomm
Opportunity management	Aveng tender advisory committee	Detailed reviews of tender opportunities performed by management before presentation to tender risk committee.	Management
	Tender risk assessment and modelling (risk tolerance)	To determine the maximum project size the Company can tolerate. This is not only a financial metric, but also considers the skills base and risk profile of the project.	TRC Investment committee
Strategic perspective	Assessment of macro-economic and industry trends	Business units are analysed to assess their relative attractiveness and competitiveness.	Board Exco
Strategy and resource allocation			
	2017 strategic workshops	Assess operating groups' capacity, competence and culture to achieve and sustain a turnaround, and their ability to win and grow business in the current operating environments.	Board Exco

Corporate governance continued

Frameworks for governance continued

Key issues	Governance structure / process	Metrics and actions	Responsible entity
Performance and outlook			
Strategic performance	Strategic workshops	A platform to enable the operating groups to implement their strategic objectives in support of the Group's strategic goals. It aims to establish a high-performance culture throughout the Group, aligned to the revised Aveng purpose, vision, mission and values.	Board, executive committees of operating groups
	Strategic pillars	The third phase of the current strategy is to realise growth and achieve industry leadership positions in all our business units by focusing on strategic pillars that address customer delivery, innovation, sustainability and financial performance, all underpinned and enabled through our people and our diverse and inclusive corporate culture. The Group is currently engaging in a strategic review. This is due to be completed by 30 November 2017. The outcome of this review will then be communicated.	Board
People performance	Management capability review	Integral to the Company's talent and leadership capability process in terms of profit generation and management oversight roles. Psychometric tests, individual performance reviews, the entity's financial performance and analysis of project performance are considered.	Remco
Remuneration			
Remuneration policy	Remuneration modelling exercises	Market benchmark, salary surveys. Review of incentives. Review of NED fees for approval by shareholders at AGM. Pay differential analysis in respect of HDI employees.	Remco
Succession plans	Annual succession review	Review of quality of people, identification of succession gaps and creation of growth path for talent pipeline.	Remco
	Individual development plans (IDPs)	Good progress made on IDPs which are being monitored quarterly.	Remco
Industrial relations climate	Employee and union engagement	Engagement with employees and organised labour aims to foster labour stability across the organisation.	Remco

Key issues	Governance structure / process	Metrics and actions	Responsible entity
Governance			
Scope	Annual work plans for all committees	Set objectives for the year.	All board committees
	Meeting calendar	The meeting calendar is adapted to address material issues. Informal board business update sessions keep the Board abreast of current issues before they escalate into critical situations.	The Board and board committees
Compliance	Regulatory compliance framework	Ensuring effective management of the Group's compliance with applicable laws and consideration of adherence to non-binding rules, codes and standards.	Audit committee SET Exco
	Biannual compliance evaluations	Compliance evaluations are undertaken and reported to social, ethics and transformation committee in April and August.	Remco SET
	Environmental legal audits	Ensure that sites comply with safety regulatory requirements.	SHE
	Operating group governance framework	The governance framework is agreed between the Group and its operating group boards. This is done twice a year at the interim stage and year-end when the delegation of authority is tabled for adoption and approval.	Board, operating group boards and company secretary
	Delegation of authority framework	Includes established benchmarks and performance indicators to hold management accountable for decisions and actions.	Board
Leadership			
Assessments	Annual assessment of the Board and committees	Assessments are done annually, alternatively by internal questionnaire interviews and external evaluations. In August 2016, the chairperson of the Board conducted one-on-one interviews with each board member.	Chairman of the Board and committees and company secretary
Transformation	Board race and gender diversity policy	The policy and plan address the targets set by the Board and a plan to reach these targets within a set timeframe.	Remco

Corporate governance continued

Board committees and attendance

Audit committee	Remuneration and nomination committee	Social ethics and transformation committee
7 meetings	5 meetings	4 meetings
Independent non-executive directors		
P Hourquebie (7/7) KW Mzondeki (7/7) EK Diack (7/7) MI Seedat (7/7)[2]	TM Mokgosi-Mwantembe (chair) (5/5) AWB Band (1/1)[1] MI Seedat (5/5) P Hourquebie (3/3)	MI Seedat (chair) (4/4) AWB Band (1/1)[1] TM Mokgosi-Mwantembe (4/4) KW Mzondeki (4/4) P Hourquebie (3/3)
Management and other		
Chairman of the Board Chief executive officer[2] Finance director Head of internal audit External audit representative	Chief executive officer[2] Group executive director Group remuneration and rewards executive[3]	Chief executive officer[2] Group executive director Group transformation executive[3]
Responsibilities		
Assess financial sustainability Financial and Integrated reporting Internal controls Combined risk management assurance Oversee IT governance	Ensure optimal remuneration structures to attract, retain and motivate top employees to enable and support the business strategy Identify and source appropriately skilled directors who individually and collectively add value to the Board	Oversee transformation strategies, plans and processes Act as social and ethics committee for Aveng Limited and relevant subsidiary companies as required in terms of the Companies Act, 71 of 2008
Statements of compliance		
The committee is satisfied that it has complied with its regulatory and other responsibilities under the charter, as well as its legal responsibilities in terms of the Companies Act, 71 of 2008, as amended	Based on the work plan, the committee is satisfied that it has complied with its responsibilities under the charter	The committee is satisfied that it has complied with its responsibilities under the charter

[1] *Resigned August 2016*
[2] *Standing invitation*
[3] *By invitation*

Board statement: Aveng has discharged its responsibility in respect of section 43 of the Companies Act pertaining to the Social and Ethics requirements, namely, that in the period under review, Aveng Corporate and the operating groups supported and respected the protection of internationally proclaimed human rights; they upheld freedom of association and the right to collective bargaining. To our knowledge there were no incidents of discrimination and due to measures in place there were no issues pertaining to child and forced labour. There were no significant regulatory incidents pertaining to the above, which could have adversely affected the operating groups financially, their reputation, regulatory or legal standing, or delayed or stopped any projects.

Safety, health and environmental committee	Investment committee	Risk committee	Tender risk committee
4 meetings	4 meetings	4 meetings	Weekly
MA Hermanus (chair) (4/4) MJ Kilbride (4/4) MI Seedat (4/4)	EK Diack (chair) (4/4) AWB Band (1/1)[1] PA Hourquebie (4/4) MJ Kilbride (4/4) MI Seedat (4/4) SJ Flanagan (4/4)	PJ Erasmus (chair) (4/4) AWB Band (1/1)[1] PA Hourquebie (4/4) EK Diack (4/4) MJ Kilbride (4/4) MI Seedat (4/4) SJ Flanagan (3/3)	PJ Erasmus AWB Band EK Diack SJ Flanagan MI Seedat
Chief executive officer Group executive director Group safety health and environment executive[3]	Chief executive officer[2] Finance director Group strategy executive[3]	Chief executive officer[2] Finance director Group commercial executive	Chief executive officer (chair) Finance director Group commercial executive[3]
Ensure that the Aveng priority of "Home Without Harm Everyone Everyday" is upheld	Consider major investment and divestment opportunities in terms of the board approved delegation of authority and strategy and, where appropriate, make recommendation to the Board	Ensures that there is an effective risk management process that identifies and monitors the management of key risks	Governance of tender risk management through a formal process and system
The committee is satisfied that it has complied with its responsibilities under the charter	The committee is satisfied that it has effectively fulfilled its roles and duties during the year under review and has complied with the provisions of its charter, which was approved by the Board	The committee is satisfied that during the year under review it has complied with its responsibilities under the charter, as well as its legal responsibilities in terms of the Companies Act, 71 of 2008, as amended. The risk committee oversees the implementation of all three lines of defence and satisfies itself through the activities of the tender risk committee that adequate business processes are followed	The committee is satisfied that it has complied with its responsibilities under the charter

[1] *Resigned August 2016*
[2] *Standing invitation*
[3] *By invitation*

Board statement: The Board acknowledges its accountability for safety, health and environment and upholds the philosophy of "Home Without Harm Everyone Everyday", which applies to all employees and subcontractors of the Aveng Group.

Audit committee report

The audit committee has pleasure in submitting its report to the shareholders as required in terms of section 94(7) of the Companies Act No 71 of 2008.

Membership of the committee

The committee comprised the following members at the date of this report:

- PA Hourquebie – Chairman
- KW Mzondeki
- PJ Erasmus

Each member is an independent director and has the adequate relevant knowledge, the financial expertise and experience to equip the committee to properly execute its duties and responsibilities.

The experience and qualifications of the members are set out in the integrated annual report.

Functions of the committee

During the year under review, seven meetings were held. Details of attendance are set out in the corporate governance section of the integrated annual report.

The committee reports that it has adopted appropriate formal terms of reference as its mandate, and has regulated its affairs in compliance with this mandate, and has discharged all of the responsibilities set out therein. During the financial year under review, the committee reviewed the following matters:

- The quarterly and half-yearly financial reports, the integrated annual report, the annual financial statements and accounting policies for the Company and all subsidiaries
- The effectiveness of the combined assurance model
- The reports of the internal audit function on the state of internal control, including its forensic reports regarding fraud prevention and detection
- The effectiveness of the internal audit function
- The auditor's findings and recommendations
- Statements on ethical standards for the company and considered how they are promoted and enforced.

Independence of auditor

The committee reviewed a presentation by the external auditor and, after conducting its own review, is satisfied with the independence and objectivity of Ernst & Young Inc. as external auditors and Mr AJ Carshagen as the designated auditor. The committee further approved the fees to be paid to Ernst & Young Inc. and its terms of engagement and pre-approved each proposed contract with Ernst & Young Inc. for the provision of non-audit services to the Company.

Statutory reporting

The committee has evaluated the annual financial statements of Aveng and the Group for the year ended 30 June 2017 and, based on the information provided to the committee, considers that the Company and Group comply, in all material respects, with the requirements of the Companies Act of South Africa, the International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, and applicable legislation and financial pronouncements as issued by the Financial Reporting Standards Council.

Internal financial controls

The committee agendas provide for confidential meetings between committee members and both the internal and independent external auditors.

The committee has oversight of the Group's financial statements and reporting process, including the system of internal financial control. It is responsible for ensuring the Group's internal audit function is independent and has the necessary resources, standing and authority in the organisation to discharge its duties. The committee oversees cooperation between internal and external auditors, and serves as a link between the Board of directors and these functions. The head of internal audit reports administratively to the chief financial officer and functionally to the chairman of the committee. The committee is of the opinion, after having considered the assurance provided by the Group's three lines of defence, that the Group's system of internal financial controls in all key material aspects provides reasonable assurance that the financial records may be relied upon for the preparation of the annual financial statements. This is based on the information and explanations given by management as well as the Group internal audit function, other independent assurance providers and external auditors.

Expertise and experience of the chief financial officer and the finance function

The committee has satisfied itself that the group chief financial officer, Mr AH Macartney, has the appropriate expertise and experience to carry out his duties.

The committee has assessed the competency, skills and resourcing of the Group's finance function, and is satisfied as to the overall adequacy and appropriateness of the finance function.

Expertise and experience of the company secretary

The committee has satisfied itself that the company secretary has the appropriate competence and experience and has maintained an arm's length relationship with directors.

Recommendation of the annual financial statements and integrated annual report

The committee, having fulfilled the oversight role regarding the reporting process for both the annual financial statements and the integrated annual report and having regard to material factors that may impact the integrity of these reports, recommends the integrated annual report and the annual financial statements for approval by the Board of directors.

PA Hourquebie
Chairman

20 October 2017

Remuneration report

Part 1: Overview

Statement from the chairman of the remuneration and nomination committee

Dear stakeholders

The 2017 remuneration outcomes of Aveng are indicative of the state of financial performance in which we currently find ourselves. The link between group performance and employee incentivisation remains tightly bound; clearly indicated by the fact that no long term incentives have vested and there has been forfeiture of shares at executive director level for the 2017 financial year. Looking forward, out of the box thinking is required to attract and retain executive and senior management as Aveng navigates itself out of this difficult period.

Human resource management in Aveng seeks to enable the attraction, development, performance management, rewarding and retention of high-performing employees. An important part of this involves equipping managers with the skills and capability to effectively engage with employees to ensure clear accountabilities and line of sight between organisational objectives and the outputs required of each employee to meet Aveng's overall strategic and operational objectives.

The retention and attraction of key talent remains critical to Aveng's ability to restore sound performance. Other important focus areas are:

- Ensuring we have the right people in the right positions, with the right skills and capability in all critical roles
- Continuing to entrench a high-performance culture premised on every employee assuming personal accountability for the organisation's performance
- Reviewing the values to ensure alignment with the objective of entrenching a high-performance culture
- Regular employee engagement through formal and informal engagement sessions to ensure employees are informed and aligned to the organisation's strategy and to improve engagement and commitment
- Strengthening the organisation's succession bench strength in all key and critical positions
- Ensuring human resource basics are in place and that key people-related metrics are measured and monitored, with corrective action taken proactively, where necessary.

Non-vesting of LTIs

Due to the poor performance experienced over the last three years, we also saw the lapsing of forfeitable shares awarded to executive directors and prescribed officers in 2013 and 2014. These forfeitable shares represented a key element of retention for these individuals. We therefore had to once again review how to address long term retention. As Aveng was in a closed, prohibited or cautionary period from December 2015, we implemented a cash-settled conditional share plan (CSP) which mirrored the approved long term incentive plan (LTIP). Under this plan, the committee made performance awards, retention awards and bonus awards. The bonus awards were the deferral component of the cash-based short term incentive (STI) award. Award details are contained in part 3 of the report. Notwithstanding these awards, the continued company underperformance in 2017 has negatively impacted the retention effect of these awards as the performance condition is unlikely to be met.

2018 reward focus areas

- Talent attraction and retention under prevailing business circumstances
- 2018 Special Incentive Scheme
- Review of employee value proposition
- Sustainability and behavioural measures for short term incentives
- Driving a high-performance culture

Annual remuneration review

Individual performance is a key driver when it comes to remuneration and as such performance-based increases were awarded in January 2017 to qualifying executive directors and prescribed officers. These were based on the approved mandate and moderated due to affordability.

Remuneration and nomination committee 2017 key focus areas

- The committee recommended financial measures together with targets for the various incentive plans to the Board for approval. These are discussed in the remuneration policy (refer to page 90)
- Implementation of a cash-settled CSP in line with the rules of the approved LTIP because of the inability to make actual share awards under the LTIP
- Executive directors and non-executive directors' total pay benchmarking against the market, and review and approval of executives' remuneration
- Annual increase mandate and its application relative to performance and affordability reviewed, approved and implemented within the mandate
- Incentive awards reviewed relative to individual and group performance and market benchmarks, and approved
- Performance contracting and reviewing by operating group monitored by the committee quarterly
- Annual increases and incentive payments reviewed against performance measures and awarded based on company performance and sustainable outlook of key business portfolios
- Confirmation of the performance condition and targets for the approved Aveng executive short and long term incentive plans
- Review of formal succession plan for executive directors and senior / critical positions. Group-wide succession plans reviewed by the committee

- Reviewed composition of the Board and tenure of executive directors and non-executive directors. New committee chairpersons appointed to address board succession planning
- Committee reviewed and approved all senior executive director appointments and terminations
- With the significant changes made to the remuneration policy and approved by shareholders at the 2015 AGM, the remuneration and nomination committee has again resolved not to make any significant changes to the remuneration scheme philosophy, other than to introduce the 2018 special incentive scheme to address current talent attraction and retention in the short to medium term. The committee continues to monitor the impact of these schemes over the medium term to establish delivery against desired outcomes.

Mr Philip Hourquebie was appointed to the remuneration and nomination committee in August 2016.

Statement of fairness and responsibility

We are constantly reviewing the way in which we remunerate our employees to ensure that our pay is both fair and responsible. Our employees' remuneration should be deemed impartial, objective and rational. We deliver on these criteria by ensuring that all remuneration is approved by the appropriate authority and is subject to oversight.

Shareholders

While we experienced a decline in shareholder approval of our policy in 2016 as compared to the previous years, the policy was still approved by a significant majority of shareholders. It is also worth noting that the 2016 remuneration policy was a replication of the 2015 policy, which had an overwhelming approval percentage of 97,68%. The table below reflects the previous year's approval percentages.

2013	2014	2015	2016
90,62%	95,85%	97,68%	81,90%

With regard to voting on the non-executive directors' fees, the fees were approved by a 99,94% majority in 2016.

We value our relationship with our shareholders, and strive to keep the lines of communication regular, open and transparent. As in previous years, we have engaged with numerous major shareholders during this year.

With specific reference to the Aveng incentive schemes, our major shareholders were satisfied with the progress made on the implementation of most of the elements of the schemes.

External consultants

During the year, the following external advisers were used for the following activities:

- PwC – to assist the committee with executive directors' and non-executive directors' remuneration benchmarking against the market, advice on remuneration and incentive scheme design and practice, and other remuneration-related advice and support as required by the committee
- PE Corporate Services – to provide benchmarking on executive pay
- Marsh & McLennan (formerly Mercer) – to provide total pay executive benchmarking data for the Australian market, including incentive schemes

The remuneration and nomination committee is, once again, satisfied with the objectivity and independence of the consultants used in these instances.

Implementation of King IV

This report focuses on remuneration-related activities undertaken during the 2017 financial year and highlights the application of the policy to executive directors, prescribed officers, non-executive directors and where applicable, other permanent salaried employees. Aveng remains committed to complying with sound remuneration governance and applicable legislation, the JSE Listings Requirements and the Code of Corporate Governance for South Africa 2016 (King IV). While the practice notes for King IV have yet to be released, Aveng has chosen to comply with the majority of the Code's requirements. As such, shareholders will be requested to cast a non-binding advisory vote for part 2 and part 3 of the remuneration report.

Remuneration report continued

Part 2: Remuneration policy overview

Introduction

Aveng is committed to developing and implementing effective remuneration strategies and practices to attract, retain and reward employees commensurate with their performance and contribution in line with market practices. The strategic outcomes sought through the remuneration policy include rewarding superior performance and penalising poor performance, attracting and retaining critical talent, and aligning management's total remuneration with stakeholder value creation.

1. Aveng's remuneration policy must be consistent with, and aligned to the vision, mission, values and strategic business objectives (both short term and long term) of the Group.
2. Our pay should be deemed to be fair, responsible and sustainable by all stakeholders. We aim to achieve this through:
   - A robust and universal job grading system that enables accurate job grading results for benchmarking purposes
   - Regular remuneration benchmarking for all grades against the general market and the various sectors in which we operate (construction, manufacturing and mining industries) using independent salary surveys
   - Development of market-related pay scales by grade for comparative purposes
   - Ensuring that there are no race and gender-based unjustifiable pay inequities within the Group.
3. To attract, retain and motivate employees, we seek to articulate an attractive and compelling value proposition for current and prospective employees. We strive to accomplish this by providing a clear remuneration structure with an appropriate mix of guaranteed pay, benefits and variable pay.
4. Both company and individual performance is measured and forms the basis for reward and incentivisation:
   - Incentive pools are shaped by group and operating segment profitability
   - The pay mix supports the Group's strategy of striving for outperformance and that on-target earning potentials are directly linked to performance and designed to promote the development of a high-performance culture
   - Reward contributions of employees based on a "fit-for-purpose" approach which takes line of sight and influence into account
   - The existence of a comprehensive performance management system and a coaching-for-performance culture, including performance contracting and regular performance assessments
   - Achieve the motivational impact required to deliver the Group's strategy and targets and promote the desired behaviour
   - Recognise and reward exceptional performance while penalising mediocre or poor performance.
5. Aveng's remuneration policy elements, as listed above, aim to drive stakeholder value whilst ensuring:
   - Compliance with all remuneration governance covenants and applicable legislation
   - Transparency to enable stakeholders to make reasonable assessments of remuneration practices and underlying governance processes of the Group
   - The best interests of the Group, its shareholders, and its broad internal and external stakeholder base are upheld.

Remuneration structure

Aveng's remuneration structure provides for guaranteed and variable remuneration components. The guaranteed component comprises employees' total cost of employment (TCOE) or total guaranteed pay (TGP). The variable pay portion is driven by both group and individual performance and the quantum varies year-to-year. Part 2 focuses on executive management, as required by King IV. This is defined as executive directors and prescribed officers.

Three-tier reward structure	Base / guaranteed pay	Benefits	Variable remuneration
Executives and senior management	◆	✱	✚
Middle management and professionals	◆	✱	■
Supervisory / first-line management and general staff	◆	✱	■

◆ Base / guaranteed pay

Guaranteed monthly salary or hourly pay rate of the employee.

The Group's guaranteed pay philosophy is to pay at the median of the market for full competency and expected performance, while allowing for performance-based differentiation through the short and long term incentive schemes. It is also designed to attract and retain employees in line with the scope, nature and skills requirements of the role.

When setting and reviewing the guaranteed pay policy, various factors, including the following, are taken into account:

- Market pay trends, including benchmarking against the specific industries and disciplines within which the Group operates
- Macro-economic factors such as inflation, market increase projections and salary movement within the market
- Movement in costs of particular benefits
- Group performance and affordability
- The need to ensure that executive pay is performance-based.

Guaranteed pay is reviewed annually in January. A pay increase mandate supported by salary surveys, projected salary movements, inflation, company performance and affordability, is reviewed by the committee and recommended to the Board for approval. The approved mandate is communicated and implemented by management.

Individual performance as per the employee's performance contract is assessed and rated, and this, together with the employee's compa-ratio to the relevant market median, informs a salary increase recommendation. This process ensures internal and external parity.

Increase recommendations for the Aveng executive committee members are proposed by the CEO / executive chairman and presented to the committee for approval and implementation. The CEO / executive chairman's increase is approved by the chairman of the Board / lead independent director, respectively, following recommendation by the Aveng remuneration and nomination committee.

Employees have the option to elect to have 7% of their monthly salary deferred and paid as a lump sum in October each year. This is referred to as elective annual savings (EAS).

✱ Benefits

Medical aid cover

The Group facilitates the provision of medical aid for employees and their families, and salaried employees are required to be members of the Company-nominated medical schemes unless they are already members of their spouse's medical aid schemes. Contributions are funded from the employees' total guaranteed pay (TGP).

Retirement funding

Employees have the option to structure their pension and provident fund contributions and risk benefits at either 70%, 80% or 100% of their TGP.

These contributions ensure that employees have appropriate savings for their retirement.

- Provident fund contribution percentage options are 6%, 7,5%, 9%, 10,5% or 12%. This is an employer contribution and funded from the employees' TGP
- Pension fund contribution percentage options are either 6%, 7,5%, 10%, 12,5% or 15%. This is an employee contribution and funded as a deduction from take-home pay
- The rules of the pension and provident fund have been revised to take the Taxation Laws Amendment Act into account
- To encourage employees to save adequately for retirement, provision is now made in the rules for employees to make additional voluntary contributions
- A further rule amendment has been approved to allow members to contribute up to a maximum of 27,5% of remuneration earned from the Group.

Group life and insured benefits

These benefits provide insurance for employees and their dependants in the event of disability, death or critical illness.

- Group life assurance (death cover) – employees now have the flexibility to choose appropriate levels of death cover based on their personal and financial circumstances. Categories of death cover offered as a choice to all fund members are 2,5x, 3x, 3,5x,4x or 4,5x annual pensionable salary

Remuneration report continued

- Permanent health insurance (disability cover)
- Group personal accident cover (accidental death benefit cover)

Variable remuneration: middle management and professionals and supervisory / first-line management and general staff

"Fit for Purpose" STI schemes which are cash-based, performance driven and self-funded.

Variable remuneration: executive management

The schemes applicable to executive management are detailed in this report.

The Group's annual business plan is based on and informed by the Group's strategy. This plan informs the budget from which the key business performance indicators (financial and sustainability) are derived. These indicators are incorporated into the annual performance contract of the chief executive officer / executive chairman, who in turn cascades these measures into the performance contracts of the individual executive directors and managing directors. Performance against the financial and sustainability measures in performance contracts are regularly assessed.

Employees are then assessed on a behavioural competency scale. The behavioural competencies identified for the employee are specific to their role and responsibility. On assessment, the employee is rated on a behavioural rating scale where "good performance" is described as "All objectives were achieved or most were achieved with greater than expected results. Behaviours were consistent with Aveng principles and values."

The individual's behavioural competency rating is used in determining both annual salary increases and the level of short term and long term incentives awarded, as described on pages 94 to 97. Employees whose behaviour is consistent with Aveng principles and values, and who meet objectives as set in their performance contract, are remunerated around the market median for their role. Where objectives were not achieved and / or behaviours were inconsistent with Aveng principles and values, employees do not receive any incentives or annual increase. The linking of these components to the remuneration of our executive management encourages superior overall performance by executives.

The variable remuneration schemes align with Aveng's risk appetite and are designed to influence managers to achieve sustainable growth without taking excessive risk.

Variable remuneration schemes

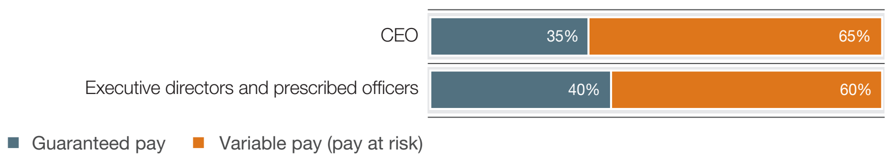
The Group currently has the following incentive schemes (detailed on pages 93 and 98):

- Short term incentive (STI) (refer page 93)
- Long term incentive (LTI) (refer page 95).
- 2018 special incentive scheme (refer page 98).

Through the deferral of a portion of the cash-based short term incentive into bonus shares for the executive directors and prescribed officers, a retention element is created within the remuneration policy. This policy ensures that performance measures identified as important to driving the business performance to create value for our shareholders form a significant part of executive directors' and prescribed officers' pay.

Variable pay as a percentage of total on-target remuneration for the CEO, executive directors and prescribed officers is depicted in the chart below:

Executive directors and prescribed officers



The Group ensures that its pay mix drives towards a culture of high-performance by placing a large component of remuneration "at risk" in the form of variable pay. The pay mix has been designed to place the Group in a competitive position to attract and retain key talent, while incentivising managers to deliver sustained value for all stakeholders.

Financial targets are set annually at the beginning of the financial year, based on the targets agreed by the Board.

The key financial measures for Aveng are currently earnings before interest, taxation, depreciation and amortisation (EBITDA) and operating free cash flow before capital expenditure (capex). For prescribed officers the measures are operating groups' profit after tax (PAT) and operating free cash flow before capital expenditure (capex). The prescribed officers are measured on Aveng as well as operating group performance on a 25:75 split (Aveng:operating group).

The total bonus quantum of the STI and LTI awards to individual Aveng executive directors and senior executives (top three reporting levels) are approved by the committee. Similarly, any exceptions to the STI scheme rules are approved by the committee.

Clawback provisions are applicable to unvested bonus shares (and to any deferred project bonuses) under the following circumstances:

- in the event that a material misstatement of the financial statements of Aveng / operating groups / business units is detected
- in the event of subsequent poor project performance
- in the event of significant adverse legal / Competition Act findings against Aveng in which the individual had some culpability
- in the event of a disciplinary finding against the individual.

Executive incentive schemes

The following tables below set out a summary of the incentive schemes applicable to the executive directors and prescribed officers of Aveng.

Executive STI scheme

Philosophy and business objective	Rewards and incentivises achievement of individual operating group, business unit and group financial performance, sustainability targets and behavioural competency indicators.	
Instrument	Cash bonus paid in October based on the preceding financial year results. A portion of the cash-based short term incentive is converted into bonus shares, which are further described under the long term incentive for the executive directors and prescribed officers.	
Incentive factor	The incentive factor is applied to the actual total pay (ATP) to determine a targeted STI payment. This targeted payment is then further modified according to the modifiers described below. CEO = 100% of ATP Executive directors = 80% of ATP Prescribed officers = 80% of ATP	
Participants	**Executive directors and prescribed officers** Executive chairman – Appointed as an interim measure to address immediate liquidity and business challenges, including the appointment of a new CEO. A special incentive arrangement has been agreed by the Board to ensure delivery against set objectives.	
Company score multiplier 1	**Executive directors** **Financial (70%)** Aveng EBITDA (35%) + Aveng OFCF (35%)	**Prescribed officers** **Financial (70%)** Aveng EBITDA (8,75%) + Aveng OFCF (8,75%) + Operating group PAT (26,25%) + Operating group OFCF (26,25%)
	Sustainability (30%) Completion of strategic review and execution of the plan (7,5%) + attraction and retention of talent (7,5%) + safety (7,5%) + transformation (7,5%)	**Sustainability (30%)** Completion of strategic review and execution of the plan (7,5%) + attraction and retention of talent (7,5%) + safety (7,5%) + transformation (7,5%)

Remuneration report continued

Behavioural competency score multiplier 2

The behavioural competency score modifies the STI payment from 0% to 150%. The score is determined per individual, based on achievement of the behavioural competencies specific to their role.

The competencies set out for executive management are:

- Drives a high-performance culture
- Inspires others and hold ourselves accountable
- Influences and drives collaboration
- Unlocks innovative thinking
- Builds stakeholder relationships and networks

These are measured using the behavioural rating scale below:

		Earning potential
Exceeds expectation	All objectives were achieved consistent with the performance agreement and significantly greater than expected results against some. Behaviours were consistent with Aveng principles and values.	Up to 150%
Good performance	All objectives were achieved or most achieved with greater than expected results. Behaviours were consistent with Aveng principles and values.	Up to 110%
Improvement required	Not all objectives were achieved or behaviours were inconsistent with the Aveng principles and values.	Up to 80%
Performance standards not met	Objectives were not achieved and / or behaviours were inconsistent with Aveng principles and values.	0%

Earning potential, caps and gatekeepers

Earning potential on company score

Company score	EBITDA, PAT and operating free cash flow measures %	Employees earning potential %
Threshold	>80	0
On-target	100	100
Stretch target	125	150

Awards are made on a linear basis between threshold and stretch target levels.

Earning potential on behavioural competency score

The rating score ranges from 0% (where objectives were not achieved and / or behaviours were inconsistent with Aveng principles and values) to a maximum of 150% (where all objectives were achieved consistent with the performance agreement and significantly greater than expected results against some. Behaviours consistent with Aveng principles and values.)

"Good Performance" is generally set at 100%.

The maximum bonus potential for the executive STI scheme is capped at 225% of the suggested STI (actual total pay multiplied by the incentive factor). The 225% would be realised if maximum (stretch targets) in respect of both financial and sustainability measures were achieved, and the individual also exceeded all performance expectations against his or her behavioural competencies.

In addition to the maximums outlined above, all STI schemes are subject to applicable caps and gatekeepers.

The executive STI scheme pay-out will be limited to a cap of 20% of the Group's PAT.

Method to determine award

Calculations are based on a formula on ATP (actual total package for the relevant financial year), incentive factor, and the actual result against the targets set for the company score (Financial & Sustainability) and behavioural competency.

[FINANCIAL MEASURES + SUSTAINABILITY MEASURES] X BEHAVIOURAL COMPETENCY X INCENTIVE FACTOR X ACTUAL TOTAL PACKAGE = CASH AWARD

Settlement

Settlement of the executive STI for executive directors and prescribed officers will be 60% in cash, and 40% in bonus shares, with the bonus shares vesting over three years. Vesting occurs in three equal tranches in years one, two and three.

Executives who have not achieved all objectives and where behaviours are inconsistent with the Aveng principles and values are not eligible for bonus shares.

In the event that the Company finds itself in an extended closed period or facing challenges with the 5% limit of issued capital, the committee may take alternative steps, including converting bonus shares into a deferred cash award or making phantom awards.

Aveng long term incentive plan

The Aveng LTIP, as approved in 2015, is used to incentivise, motivate and retain the right calibre of executive and senior management.

Philosophy and business objective	Through the delivery of real shares under the LTIP, participants will become shareholders in the Company and, subject to certain restrictions, will have all shareholder rights (including dividends) from the settlement date, shortly after the award date, subject to vesting conditions.
Instrument	Awards under the LTIP take the form of bonus shares, performance shares and retention shares (collectively referred to as forfeitable shares). Each instrument serves a different purpose, as expanded below.
Maximum earning potential	CEO – 83% of TGP Executive directors – 67% of TGP Prescribed officers – 67% of TGP
Performance shares	Awards of performance shares are made annually to certain levels of employees, and the vesting of performance shares is subject to the satisfaction of performance conditions and the employment condition of three years from date of award. The following targets and commensurate vesting will be applicable to future awards of the performance shares.

	Target	Vesting scale
Below threshold	n / a	0% of the award will vest
Threshold	80% of target	50% of the award will vest
Target	‣ Execution of strategic plan (25%) ‣ Headline earnings (25%) ‣ Net cash flow (25%) ‣ Secured order book against plan (revenue and margins) (25%)	100% of the award will vest

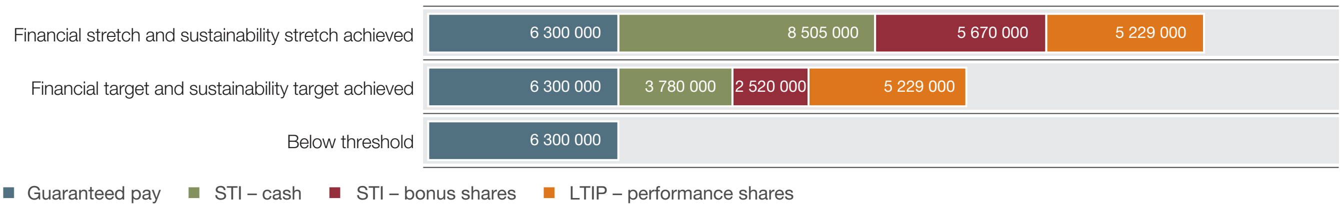
A thorough reassessment of Aveng's historical performance as well as the current business challenges has necessitated the resetting of the performance condition.
Due to specific circumstances the Company intends taking a different approach for awards in the 2018 year, which are discussed in the section headed 2018 special incentive scheme on page 98.

Retention shares	Retention shares are intended to be awarded only in specific ad hoc instances where the committee recognises or wishes to retain critical / key talent instrumental in delivering the Group's strategy, the vesting of which is subject to the satisfaction of the employment condition. Retention shares are subject to a three-year employment period. Due to the specific circumstances currently faced by the Company and indeed the industry, we intend to grant such awards in the 2018 financial year. Please refer to the section headed 2018 special incentive scheme on page 98.
Bonus shares	Awards of bonus shares are made annually to certain levels of employees. The value of the bonus shares is determined as a percentage of the annual short term incentive, which is based on the Company and the individual's performance in the previous financial year. The vesting of the bonus shares is subject to the employment condition of three years from the date of award.
Dilution	The maximum number of treasury or issued capital shares that may at any one time be allocated under the LTIP shall not exceed 20 833 547 shares, which represents approximately 5% of the number of issued shares as at the date of approval of the LTIP by shareholders. This is in line with market best practice. Shares purchased on the open market do not have a dilutionary effect and do not count towards this limit. The maximum number of shares that may be allocated to an individual in respect of all unvested awards under the LTIP may not exceed 4 166 709 shares, which represents approximately 1% of the number of issued shares as at date of approval of the LTIP by shareholders.

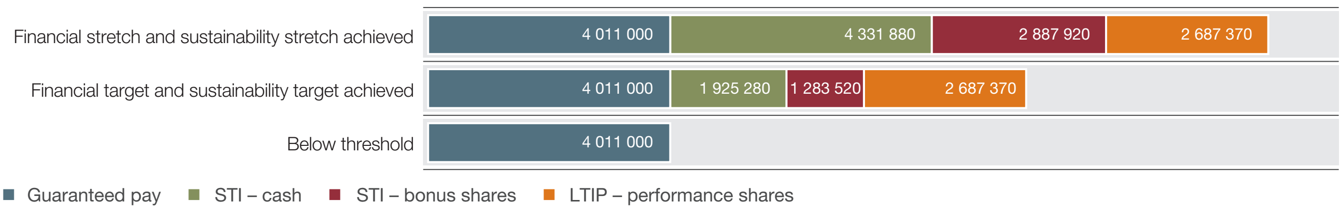
Remuneration report continued

Executive earning potential based on remuneration policy (Rm)

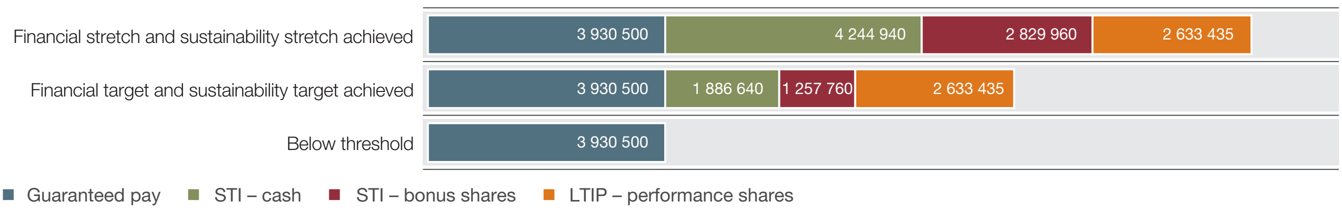
CEO



Executive director



CFO



Policy on terms of service on employment contracts and severance arrangements

Executive management

Notice periods: The termination condition of executives and prescribed officers is three months' notice, with the remainder of the Group set between one and three months' notice depending on the seniority and criticality of the role.

The Group's current normal retirement age is 60 years, excluding McConnell Dowell employees (for whom no retirement age is prescribed by Australian labour legislation). However, Aveng has a policy in place to extend employment for selected individuals with critical or scarce skills beyond the normal retirement age on the same terms and conditions. Such extension is at the sole discretion of the Company.

Although not a requirement of King III code, Aveng executive directors have historically retired by rotation every three years and presented themselves for re-election at the Group's annual general meeting (AGM). This practice shall continue.

While no specific provision is made for termination bonuses, the committee is given some discretion by the various incentive scheme rules to consider these in the case of terminations under exceptional circumstances.

The table below summarises the various termination reasons and the impact on the executive management's variable remuneration elements:

	Voluntary termination – resignation	**Termination – dismissal**	**Involuntary termination – retirement or retrenchment**	**Mutual consent separation**
Cash-settled retention	Future payments are forfeited and the executive must pay back either full or partial amount of payments already made	Future payments are forfeited and the executive must pay back either full or partial amount of payments already made	Future payments are forfeited and executive is not required to pay back amounts already received	Discretion applied based on terms of the separation agreement
STI	Award for previous year forfeited if executive not in service on date of payment	Automatic forfeiture of award for previous year	Award is discretionary and may be pro-rated	Discretion applied based on terms of the separation agreement
Cash-settled conditional share plan	All unvested conditional awards will lapse, unless the remuneration and nomination committee in its absolute discretion determines otherwise	All unvested conditional awards will lapse	A portion (performance adjusted) of the unvested conditional awards will vest on the date of termination	Discretion applied based on terms of the separation agreement
LTIP	All unvested awards shall be forfeited in their entirety and will lapse immediately on the date of termination	All unvested awards shall be forfeited in their entirety and will lapse immediately on the date of termination	In respect of bonus shares and retention shares, a pro-rata portion of the award shall vest In respect of performance shares, the portion shall also be adjusted for performance	Discretion applied based on terms of the separation agreement

Minimum shareholding requirement (MSR)

As part of our ongoing drive to align executive management and shareholder interests in terms of both risk and reward, Aveng implemented a minimum shareholding requirement policy for executives with effect from 1 July 2015. The MSR policy will work in conjunction with the LTIP.

The MSR policy sets out minimum shareholdings which executives and other selected senior employees are required to achieve. The intention of this policy is to limit the offloading of vested (equity-settled) awards, and encourage senior employees to maintain a meaningful ownership stake within the Company, representing their commitment to the creation of shareholder value, and demonstrating their faith in the business.

Employees may build up the shareholding from their own funds. To this end, employees are given the opportunity to defer the tax vesting of awards vesting under the long term incentive plans.

The target shareholdings to be realised, since the approval of the MSR policy are:

- CEO: 100% of guaranteed package
- Executive directors: 50% of guaranteed package.

These target minimum shareholding requirements are subject to annual review by the remuneration and nomination committee.

Remuneration report continued

2018 special incentive scheme

The Group has experienced a protracted period of difficult trading conditions and significant underperformance during which none of the long term incentive awards and few of the short term incentives have been paid due to strict adherence to pay for performance principles. The result is our executives have not, *inter alia*, built up the required minimum shareholding requirement.

As a result there is very limited alignment between our executives and shareholders both in terms of short term incentives driving retention and long term incentives driving value creation.

In light thereof, the long term incentive scheme will be amended for a maximum period of three years, to be reviewed annually.

The LTIP will be split into three parts to address both immediate and medium term retention and shareholder alignment at the same time. The first component will be a cash payment, the second a retention share award and the third a performance share award. The first component will be clawed back on a pro rata basis if the executive resigns before the expiry of three years from date of payment. The second component will assist in accelerating the achievement of the minimum shareholding requirement and will vest after three years provided the executive is still employed. The performance share award vests in 2020, subject to meeting the performance condition.

We believe this exception is necessary in the short to medium term to ensure we continue to attract and retain top talent across the Group to drive the performance turnaround of the business and align them with shareholders' interests.

Accordingly, the following award structure is to be implemented for the 2018 award:

- 25% of the award paid as a cash retention upfront, subject to a clawback condition
- 35% of the award granted in retention shares to selected key executives and managers
- 40% of the award in performance shares with performance conditions reflecting the priorities required to succeed in the context of current trading conditions, including execution of strategic plan, headline earnings, net cash flow and secured order book against plan

The Company is fully committed to resuming the best practice, pay for performance policies it has applied for many years, once the current difficult trading conditions ameliorate.

Non-executive directors

Policy

Non-executive directors are appointed by the shareholders at the AGM.

Where a non-executive director holds office for longer than nine years, the independence of that director will be subjected to a review by the Board and a statement to that effect will be included in the integrated report.

The committee shall consider the continuation (or not) in service of any non-executive director who has reached the age of 65. Non-executive directors must retire from the Board by the age of 70. Notwithstanding this provision, non-executive directors are also subject to the retirement by rotation process as provided for in the memorandum of incorporation.

Fee structure

Non-executive directors' fees are paid on a retainer basis, for the Board and all committees. For the Board and committees, additional fees are paid per meetings in excess of the scheduled number of Board and committee meetings per year. There is also an approved McConnell Dowell travel allowance, and a fee per hour for non-executive directors when required for extra ordinary services.

A composite fee is paid to overseas based non-executive directors, which is exclusive of VAT.

Fee approval

Management submits annually, to the remuneration and nomination committee, a proposal for the review of non-executive director fees. This proposal includes benchmarks from a minimum of two non-executive director remuneration surveys, as well as extracts and benchmarking data from annual reports of at least five medium businesses within the same industry sector. A comparison of the current and proposed fees against the market surveys and benchmarks informs the appropriate fee recommended by management. The services of independent remuneration consultants may also be used to obtain independent benchmarks for non-executive directors' fees.

In light of the appointment of a UK-based non-executive director onto the Aveng Board as well as four board committees, a detailed, local benchmark exercise was undertaken to determine a composite fee payable to him. In addition, a per meeting fee was also determined.

While market benchmarks provide an indication of competitiveness of non-executive director fees, company performance and affordability ultimately influences fee increases.

This recommended fee, upon review by the Board, is submitted to the AGM for approval by shareholders in terms of the Companies Act. The non-executive director fees proposed exclude VAT which will be charged by a qualifying non-executive director at the prevailing rate.

No increase in the fees for non-executive directors has been recommended for 2018.

Board / committee	**Category**	**2017 Fee (R)**	**2018 proposed increase (%)**	**2018 proposed fee* (R)**
Main Board	Chairperson	**976 000**	–	976 000
	Lead independent director**			450 000
	Director	**321 400**	–	321 400
	Ad hoc meetings****	**28 200**	–	28 200
Subsidiary boards	Director	**170 800**	–	170 800
	McConnell Dowell travel allowances***	**78 000**	–	78 000
Remuneration and nomination committee	Chairperson	**216 600**	–	216 600
	Member	**86 100**	–	86 100
Safety, health and environmental committee	Chairperson	**187 000**	–	187 000
	Member	**80 800**	–	80 800
Social, ethics and transformation committee	Chairperson	**187 000**	–	187 000
	Member	**80 800**	–	80 800
Risk committee	Chairperson	**216 600**	–	216 600
	Member	**86 100**	–	86 100
Audit committee	Chairperson	**286 400**	–	286 400
	Member	**161 200**	–	161 200
	Subsidiaries member	**87 300**	–	87 300
Investment committee	Chairperson***	**11 400**	–	11 400
	Member***	**8 700**	–	8 700
Tender risk committee	Member***	**11 200**	–	11 200
Ad hoc committee meetings	Member / invitee*****	**18 300**	–	18 300
Extraordinary services rendered	Per hour fee******	**4 500**	–	4 500

* *The proposed fees exclude VAT which will be charged by any qualifying non-executive director, at the prevailing rate.*
** *Lead independent director fee for new position on the Aveng Board to be retrospectively applied in line with the appointment date.*
*** *Per meeting attended.*
**** *Per meeting attended in excess of the five scheduled meetings per year.*
***** *Directors who are not members of a board committee are sometimes requested on an ad hoc basis to attend meetings of certain committees. The proposed fee structure as set out above includes a fee payable under these circumstances. The meeting attendance fee to directors who are not members of the relevant committee will only be paid if attendance is based on a formal invitation from the committee chairperson.*
****** *Per hour, not exceeding eight hours per day.*

Fee type	**2017 fee (£)**	**2018 proposed increase (%)****	**2018 proposed fee* (£)**
Composite fee**	**51 000**	59	81 250
Ad hoc meeting fee***	**2 550**	–	2 550

* *The proposed fees exclude VAT which will be charged by any qualifying non-executive director, at the prevailing rate.*
** *Fee paid for attendance at Aveng Board meetings, attendance as Chairman of audit committee and as a member of three other board committees (being the SET, remuneration and nomination and investment committees).*
*** *Fee paid for any additional ad hoc board or committee meetings attended.*
**** *Fee increase following appointment as Chairman of the audit committee and appointments to the SET and remuneration and nomination committees.*

Shareholders are requested to cast a non-binding advisory vote on Part 2.

Remuneration report continued

Part 3: Implementation of remuneration policies during the 2017 financial year

2017 guaranteed pay increase

Due to the prevailing tough business climate, the operating groups limited annual increases to below the mandated increases over the past five years. Despite these reduced overall annual increases, our annual market benchmarking results indicate that we remain generally on par with the market. Market increases within our sector have also generally been curtailed due to the sustained economic downturn.

Executive directors and prescribed officers were awarded performance-based increases. Where individual performance was below target no increase was awarded. Market benchmarking was taken into consideration for each individual's remuneration.

	Average increase %
Executive director and prescribed officers	4,4
General staff*	5,3

** This average is only applicable to eligible employees of those operating groups which awarded increases in line with profitability, affordability and sustainability considerations.*

Performance measurement

The Group's performance management process measures the relative level of performance of both businesses and individuals. One of the key considerations to be taken into account when an employee's salary is being reviewed, is their performance rating. This rating is a factor considered when determining both annual salary increases and incentive awards. The ratings will impact on the short term incentive (STI), including the bonus shares and performance shares awarded in terms of the approved long term incentive plan.

Achievement of targets: STI for executive directors – high level overview

Factor	Weighting	Below threshold	Threshold	Target	Stretch
Financial measures					
PAT and OFCF	70%	●			
Non-financial measures					
Safety, transformation and critical staff turnover	30%			●	
Employment equity	Overall modifier	●			

The effect of the employment equity modifier is that STIs were decreased by 30% for non-achievement of the target.

Other factors taken into account in determining the STI for Aveng executive directors were:

- Significantly derisked the business by resolving various major claims
- Successfully concluded sale of Steeledale and monetisation of the ACP assets
- On track with execution of empowerment transaction at Aveng Grinaker-LTA

Notwithstanding the legitimacy of the non-financial component of the STI, the Aveng remuneration and nomination committee exercised its discretion to defer the payment of STI bonuses to executives to later in the 2017 calendar year.

Long term incentives

Discontinued schemes: share appreciation rights (SARs) scheme and forfeitable share plan (FSP)

Achievement of performance conditions

The SARs and FSP performance conditions are independently tested on an annual basis to determine the extent of vesting.

The table below shows the vesting for the awards between 2013 and 2015.

	2013 %	2014[1] %	2015[1] %
SARs	0	0	
FSP	0	0	0

[1] *If the current position is maintained at the end of the performance period, both awards shall automatically be forfeited.*

SARs scheme

As this scheme was discontinued in 2015, no SARs were granted in the year under review.

SARs	Number of appointment awards	Number of annual awards	Total number	SARs issued	Total number of SARs issued to date	Forfeited to date	Vested to date
2012	12	307	319	6 360 875	6 360 875		
2013	11	248	259	6 055 062	12 415 937		
2014	2	260	262	6 233 008	18 648 945		
2015	1	239	240	6 890 600	25 539 545		
2016	–	–	–	–	25 539 545		
2017	**–**	**–**	**–**	**–**	**25 539 545**	**(21 116 205)**	**–**

Vesting of SARs is subject to the meeting of a performance condition.

The last SARs were granted in November 2014. The performance condition for these awards will be tested in November 2017. As indicated in the “achievement of performance conditions” table, it is improbable that the performance condition is going to be met, as such, these awards will automatically be forfeited.

FSP

As this scheme was discontinued in 2015, no forfeitable shares were granted in 2017.

FSP	Number of awards	FS issued	Total number of FS issued to date	Forfeited to date	Vested to date
2012	9	990 108	990 108		
2013	4	352 200	1 342 308		
2014	6	502 891	1 845 199		
2015	6	502 262	2 347 461		
2016	21	4 294 700	6 642 161		
2017			**6 642 161**	**(805 935)**	**(1 106 045)**

Vesting of forfeitable shares is subject to the meeting of a performance condition.

The last FSP shares were granted in September 2015. These awards are due to vest in September 2018 and are subject to the fulfilment of the performance condition, which will be tested in November 2018.

Remuneration report continued

Current schemes

Cash-settled conditional share plans (CSPs)

As Aveng had been in an extended cautionary period since December 2015, a decision was taken to implement a CSP which mirrors the approved long term incentive plan (LTIP) with the only exception that the awards are cash settled and not equity settled. During 2017, performance, retention and bonus shares were awarded by the remuneration and nomination committee. The bonus shares formed part of the 2016 financial year STI awards, in line with the approved policy, and are payable in three tranches over a three-year deferral period.

CSP	Number of bonus awards[1]	Number of perfor-mance awards[2]	Number of retention awards[3]	Total awards	CSP issued	Total number of CSP issued to date	Forfeited to date	Vested to date
2017	**7**	**37**	**4**	**48**	**10 149 930**	**10 149 930**	**–**	**–**

[1] *Deferred portion of 2016 financial year STI award.*
[2] *Performance awards are subject to an employment and performance condition. The performance condition for the 2017 award is Aveng's growth in headline earnings per share (HEPS) relative to the JSE construction index J235 (excluding PPC Limited), as per the approved 2016 remuneration policy. No vesting will occur for performance below threshold and linear vesting will be applied between the threshold and target. A maximum of 100% of the award will vest.*
[3] *Retention awards are subject to an employment condition of three years.*

Non-executive directors' fees paid

	Directors' fees	Chairman's fees	Committee fees	Other fees[1]	Total
AWB Band[2]	76	–	65	–	**141**
EK Diack	339	311	524	230	**1 404**
PJ Erasmus	339	210	284	–	**833**
SJ Flanagan	339	–	372	78	**789**
MA Hermanus	339	182	18	–	**539**
MJ Kilbride	339	–	305	–	**644**
TM Mokgosi-Mwantembe	339	156	110	–	**605**
KW Mzondeki	339	–	267	–	**606**
MI Seedat	339	818	875	303	**2 335**
Total	2 788	1 677	2 820	611	**7 896**
PA Hourquebie (GBP)[3]	53	–	17	5	**75**

[1] *Other fees relate to attendance at subsidiary board meetings.*
[2] *AWB Band retired 19 August 2016.*
[3] *PA Hourquebie fees disclosed in British Pound (£).*

At the 2016 annual general meeting held on 21 October 2016, the non-executive directors' fees were approved by the shareholders with a vote of 99,94%. The approved fees were implemented with effect from 1 January 2017.

With effect from 1 June 2017, Aveng implemented SARS Binding General Rulings (BGR 40 and BGR 41) relating to the registration for VAT.

As Aveng was in a closed, cautionary or prohibited period since December 2015 until the approval of the Annual Financial Statements, 22 September 2017, no change in the direct and indirect interest of each director's holding in the share capital of the listed company have occurred.

Disclosures of executive directors' and prescribed officers' remuneration

CEO: K Verster

		2017 (R'000)	2016 (R'000)
Guaranteed pay[A]	Salary[B]	**6 003**	5 040
	Retirement[C]	**258**	404
	Total	**6 261**	5 444
Variable / other cash remuneration	STI payment[D]	**–**	854
	MTI payment[E]	**127**	224
	Retention award	**–**	4 150
	Total	**127**	5 228
Total cash paid		**6 388**[F]	10 672

Share options

Year	2011	2012	2013	2014	2015	2016	2017
Opening balance	–	264 987	264 987	264 987	264 987	264 987	**264 987**
Granted	264 987						
Offer price	R37,70						
Expiry date	Sep 20						
Closing balance	264 987	264 987	264 987	264 987	264 987	264 987	**264 987**
Vested	–	–	66 246	132 492	198 738	264 987	**264 987**

Share appreciation rights

Year	2012	2013	2014	2015	2016	2017
Opening balance	–	111 000	237 800	401 300	618 100	**618 100**
Granted	111 000	126 800	163 500	216 800		
Offer price	R33,75	R30,90	R25,00	R23,94		
Expiry dates	Dec 18	Oct 19	Sep 20	Aug 21		
Forfeited / lapsed[G]						**(401 300)**
Closing balance	111 000	237 800	401 300	618 100	618 100	**216 800**
Vested	–	–	–	–	–	**–**

Forfeitable shares

Year	2012	2013	2014	2015	2016	2017
Opening balance	–	111 111	216 911	523 930	412 819	**1 075 419**
Granted	111 111	105 800	307 019		768 400	
Vesting date	Dec 14	Oct 15	Sep 16 and Mar 17		Sep 18	
Performance condition applied	No	No	Yes		Yes	
Forfeited / lapsed[H]						**(307 019)**
Vested and pledged to MSR				(111 111)	(105 800)	
Closing balance	111 111	216 911	523 930	412 819	1 075 419	**768 400**

Remuneration report continued

LTIP: cash-settled conditional shares[I]

Bonus Shares

Year	2017
Opening balance	–
Granted	99 930
Vesting dates	Aug 17, Aug 18, Aug 19
Closing balance	99 930
Vested	–

Performance shares

Year	2017
Opening balance	–
Granted	902 778
Vesting date	Sep 19
Performance condition applied	Yes
Closing balance	902 778
Vested	–

Retention shares

Year	2017
Opening balance	–
Granted	1 805 555
Vesting date	Sep 19
Closing balance	1 805 555
Vested	–

Notes

[A] *Directors are remunerated on a total guaranteed package (TGP), made up of salary and retirement fund contributions as noted below.*

[B] *Salary for South African directors is total fixed earnings inclusive of contributions towards medical aid, admin and risk benefit expenses, accident cover and vehicle benefits, all of which is funded from the director's TGP.*

[C] *Retirement fund contributions are also funded from the director's TGP. In instances where the retirement funding contributions have reduced, this was at the election of the director to suit their personal circumstances as a consequence of the Taxation Laws Amendment Act which came into effect on 1 March 2016. In light of retirement fund contributions being funded from the TGP of directors, the decrease in contributions resulted in a commensurate increase in basic salary.*

[D] *The Aveng remuneration and nomination committee exercised its discretion to defer the payment of STI bonuses for the 2017 financial year to later in the 2017 calendar year.*

[E] *MTI paid in March 2017 in respect of previous years' awards. Scheme discontinued from the 2016 financial year.*

[F] *As disclosed in the 2016 report, the CEO received an employment offer. To ensure the stability of the Group during the various corporate transactions and the successful completion of strategic objectives, the Group made a counter-offer which included an adjustment to the CEO's salary in March 2016 and a cash retention award. In line with the remuneration policy, directors are eligible to receive an increase in January of each year, subject to market benchmarking and individual performance. Mr Verster received a 5% increase in TGP in January 2017.*

[G] *The performance condition for SARs was not met, and the awards were automatically forfeited in terms of the scheme rules.*

[H] *As the performance conditions were not satisfied, the forfeitable shares reported were automatically forfeited in terms of the scheme rules and the endorsement of the remuneration and nomination committee.*

[I] *As Aveng was in a closed, cautionary or prohibited period since December 2015, the Aveng remuneration and nomination committee was unable to make normal annual awards under the newly approved LTIP. Based on advice from its advisers and sponsor, and in line with industry practice, the Aveng remuneration and nomination committee decided to make cash-settled conditional share awards to certain selected executive and senior employees. The design principles of the CSP mirrors that of the approved LTIP scheme, with the only exception that the plan is settled in cash.*

CFO: A Macartney

		2017 (R'000)	2016 (R'000)
Guaranteed pay[A]	Salary[B]	**3 699**	3 587
	Retirement[C]	**232**	229
	Total	**3 931**	3 816
Variable / other cash remuneration	STI payment[D]	**–**	420
	Retention Payment[E]	**1 500**	1 300
	Total	**1 500**	1 720
Total cash paid		**5 431**	5 536

Share appreciation rights

Year	2015	2016	2017
Opening balance	–	243 040	**243 040**
Granted	243 040		
Offer price	R22,63		
Expiry dates	Sep 21		
Closing balance	243 040	243 040	**243 040**
Vested	–	–	**–**

Forfeitable shares

Year	2015	2016	2017
Opening balance	–	44 189	**435 189**
Granted	44 189	391 000	
Vesting date	Sep 17	Sep 18	
Performance condition applied	Yes	Yes	
Closing balance	44 189	435 189	**435 189**

LTIP: cash-settled conditional shares[F]

Bonus shares

Year	2017
Opening balance	**–**
Granted	**49 123**
Vesting dates	**Aug 17, Aug 18, Aug 19**
Closing balance	**49 123**
Vested	**–**

Remuneration report

Remuneration report continued

Performance shares

Year	2017
Opening balance	–
Granted	400 000
Vesting date	Sep 19
Performance condition applied	Yes
Closing balance	400 000
Vested	–

Notes

[A] Directors are remunerated on a total guaranteed package (TGP), made up of salary and retirement fund contributions as noted below.

[B] Salary for South African directors is total fixed earnings inclusive of contributions towards medical aid, admin and risk benefit expenses, accident cover and vehicle benefits, all of which is funded from the director's TGP.

[C] Retirement fund contributions are also funded from the director's TGP. In instances where the retirement funding contributions have reduced, this was at the election of the director to suit their personal circumstances as a consequence of the Taxation Laws Amendment Act which came into effect on 1 March 2016. In light of retirement fund contributions being funded from the TGP of directors, the decrease in contributions resulted in a commensurate increase in basic salary.

[D] The Aveng remuneration and nomination committee exercised its discretion to defer the payment of STI bonuses for the 2017 financial year to later in the 2017 calendar year.

[E] The deferred 2016 cash-settled retention award paid in lieu of a long term share award due to Aveng being in an extended closed period. The award for Mr Macartney was deferred to September 2016 to coincide with his appointment anniversary date. The award is subject to a lock-in period of three years with the full value of the award payable back to the Group in the event that any such employee resigns or is dismissed by the Group for poor performance or misconduct, within the three-year period.

[F] As Aveng was in a closed, cautionary or prohibited period since December 2015, the Aveng remuneration and nomination committee was unable to make normal annual awards under the newly approved LTIP. Based on advice from its advisers and sponsor, and in line with industry practice, the Aveng remuneration and nomination committee decided to make cash-settled conditional share awards to certain selected executive and senior employees. The design principles of the CSP mirrors that of the approved LTIP scheme, with the only exception that the plan is settled in cash.

Executive director: J Mashaba

		2017 (R'000)	2016 (R'000)
Guaranteed pay[A]	Salary[B]	3 838	3 508
	Retirement[C]	188	240
	Total	4 026	3 748
Variable / other cash remuneration	STI payment[D]	–	450
	MTI payment[E]	107	198
	Retention award	–	2 438
	Total	107	3 086
Total cash paid		4 133	6 834

Share options

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Opening balance	–	155 000	314 264	383 522	457 466	457 466	457 466	457 466	457 466	**457 466**
Granted	155 000	159 264	69 258	73 944						
Offer price	R54,84	R42,80	R40,30	R37,70						
Expiry date	Oct 17	Oct 18	Sep 19	Sep 20						
Closing balance	155 000	314 264	383 522	457 466	457 466	457 466	457 466	457 466	457 466	**457 466**
Vested			38 750	117 316	213 196	327 562	403 178	438 980	457 466	**457 466**

Share appreciation rights

Year	2012	2013	2014	2015	2016	2017
Opening balance	–	90 000	190 900	351 300	542 000	**542 000**
Granted	90 000	100 900	160 400	190 700	–	
Offer price	R33,75	R30,90	R25,00	R23,94		
Expiry dates	Dec 18	Oct 19	Sep 20	Aug 21		
Forfeited / lapsed[F]						**(351 300)**
Closing balance	90 000	190 900	351 300	542 000	542 000	**190 700**
Vested	–	–	–	–	–	**–**

Forfeitable shares

Year	2012	2013	2014	2015	2016	2017
Opening balance	–	89 661	89 661	139 661	193 367	**566 167**
Granted	89 661		50 000	143 367	372 800	
Vesting date	Dec 14		Sep 16	Aug 17	Sep 18	
Performance condition applied	No		Yes	Yes	Yes	
Forfeited / lapsed[G]						**(50 000)**
Vested and pledged to MSR				(89 661)		
Closing balance	89 661	89 661	139 661	193 367	566 167	**516 167**

LTIP: cash-settled conditional shares[H]

Bonus shares

Year	2017
Opening balance	**–**
Granted	**52 632**
Vesting dates	**Aug 17, Aug 18, Aug 19**
Closing balance	**52 632**
Vested	**–**

Remuneration report

Remuneration report continued

Performance shares

Year	2017
Opening balance	–
Granted	**1 000 000**
Vesting date	**Sep 19**
Performance condition applied	**Yes**
Closing balance	**1 000 000**
Vested	–

Notes

[A] *Directors are remunerated on a total guaranteed package (TGP), made up of salary and retirement fund contributions as noted below.*

[B] *Salary for South African directors is total fixed earnings inclusive of contributions towards medical aid, admin and risk benefit expenses, accident cover and vehicle benefits, all of which is funded from the director's TGP.*

[C] *Retirement fund contributions are also funded from the director's TGP. In instances where the retirement funding contributions have reduced, this was at the election of the director to suit their personal circumstances as a consequence of the Taxation Laws Amendment Act which came into effect on 1 March 2016. In light of retirement fund contributions being funded from the TGP of directors, the decrease in contributions resulted in a commensurate increase in basic salary.*

[D] *The Aveng remuneration and nomination committee exercised its discretion to defer the payment of STI bonuses for the 2017 financial year to later in the 2017 calendar year.*

[E] *MTI paid in March 2017 in respect of previous years' awards. Scheme discontinued from the 2016 financial year.*

[F] *The performance condition for SARs was not met, and the awards were automatically forfeited in terms of the scheme rules.*

[G] *As the performance condition was not satisfied, the forfeitable shares reported were automatically forfeited in terms of the scheme rules and the endorsement of the remuneration and nomination committee.*

[H] *As Aveng was in a closed, cautionary or prohibited period since December 2015, the Aveng remuneration and nomination committee was unable to make normal annual awards under the newly approved LTIP. Based on the advice of its advisers and sponsor, and in line with industry practice, the Aveng remuneration and nomination committee decided to make cash-settled conditional share awards to certain selected executive and senior employees. The design principles of the CSP mirrors that of the approved LTIP scheme, with the only exception that the plan is settled in cash.*

Prescribed officer: LS Letsoalo

		2017 (R'000)	2016 (R'000)
Guaranteed pay[A]	Salary[B]	**3 162**	3 152
	Retirement[C]	**238**	238
	Total	**3 400**	3 390
Variable / other cash remuneration	STI payment[D]	–	–
	MTI payment[E]	**302**	347
	Total	**302**	347
Total cash paid		**3 702**	3 737

Notes

[A] *Prescribed officers are remunerated on a total guaranteed package (TGP), made up of salary and retirement fund contributions as noted below.*

[B] *Salary for South African prescribed officers is total fixed earnings inclusive of contributions towards medical aid, admin and risk benefit expenses, accident cover and vehicle benefits, all of which is funded from the prescribed officer's TGP.*

[C] *Retirement fund contributions are also funded from the prescribed officer's TGP. In instances where the retirement funding contributions have reduced, this was at the election of the prescribed officer to suit their personal circumstances as a consequence of the Taxation Laws Amendment Act which came into effect on 1 March 2016. In light of retirement fund contributions being funded from the TGP of prescribed officers, the decrease in contributions resulted in a commensurate increase in basic salary.*

[D] *The Aveng remuneration and nomination committee exercised its discretion to defer the payment of STI bonuses for the 2017 financial year to later in the 2017 calendar year.*

[E] *MTI paid in March 2017 in respect of previous years' awards. The Scheme was discontinued from the 2016 financial year.*

Prescribed officer: HA Aucamp

		2017 (R'000)	2016 (R'000)
Guaranteed pay[A]	Salary[B]	**3 308**	3 059
	Retirement[C]	**167**	347
	Total	**3 475**	3 406
Variable / other cash remuneration	STI payment[D]	**–**	480
	MTI payment	**–**	127
	Retention award	**–**	1 400
	Total	**–**	2 007
Total cash paid		**3 475**	5 413

Notes

[A] *Prescribed officers are remunerated on a total guaranteed package (TGP), made up of salary and retirement fund contributions as noted below.*

[B] *Salary for South African prescribed officers is total fixed earnings inclusive of contributions towards medical aid, admin and risk benefit expenses, accident cover and vehicle benefits, all of which is funded from the prescribed officer's TGP.*

[C] *Retirement fund contributions are also funded from the prescribed officer's TGP. In instances where the retirement funding contributions have reduced, this was at the election of the prescribed officer to suit their personal circumstances as a consequence of the Taxation Laws Amendment Act which came into effect on 1 March 2016. In light of retirement fund contributions being funded from the TGP of prescribed officers, the decrease in contributions resulted in a commensurate increase in basic salary.*

[D] *The Aveng remuneration and nomination committee exercised its discretion to defer the payment of STI bonuses for the 2017 financial year to later in the 2017 calendar year.*

Prescribed officer: SPF White

		2017 (R'000)	2016 (R'000)
Guaranteed pay[A]	Salary[B]	**3 335**	3 130
	Retirement[C]	**252**	238
	Total	**3 587**	3 368
Variable / other cash remuneration	STI payment[D]	**–**	300
	MTI payment[E]	**428**	496
	Retention award	**–**	1 400
	Total	**428**	2 196
Total cash paid		**4 015**	5 564

Notes

[A] *Prescribed officers are remunerated on a total guaranteed package (TGP), made up of salary and retirement fund contributions as noted below.*

[B] *Salary for South African prescribed officers is total fixed earnings inclusive of contributions towards medical aid, admin and risk benefit expenses, accident cover and vehicle benefits, all of which is funded from the prescribed officer's TGP.*

[C] *Retirement fund contributions are also funded from the prescribed officer's TGP. In instances where the retirement funding contributions have reduced, this was at the election of the prescribed officer to suit their personal circumstances as a consequence of the Taxation Laws Amendment Act which came into effect on 1 March 2016. In light of retirement fund contributions being funded from the TGP of prescribed officers, the decrease in contributions resulted in a commensurate increase in basic salary.*

[D] *The Aveng remuneration and nomination committee exercised its discretion to defer the payment of STI bonuses for the 2017 financial year to later in the 2017 calendar year.*

[E] *MTI paid in March 2017 in respect of previous years' awards. The Scheme was discontinued from the 2016 financial year.*

Remuneration report continued

Prescribed officer: CDW Botha

		2017 (R'000)	2016 (R'000)
Guaranteed pay[A]	Salary[B]	**3 410**	3 105
	Retirement[C]	**181**	191
	Total	**3 591**	3 296
Variable / other cash remuneration	STI payment[D]	**–**	390
	Claim settlement incentive payment	**–**	500
	Retention award	**–**	1 800
	Total	**–**	2 690
Total cash paid		**3 591**	5 986

Notes

[A] *Prescribed officers are remunerated on a total guaranteed package (TGP), made up of salary and retirement fund contributions as noted below.*

[B] *Salary for South African prescribed officers is total fixed earnings inclusive of contributions towards medical aid, admin and risk benefit expenses, accident cover and vehicle benefits, all of which is funded from the prescribed officer's TGP.*

[C] *Retirement fund contributions are also funded from the prescribed officer's TGP. In instances where the retirement funding contributions have reduced, this was at the election of the prescribed officer to suit their personal circumstances as a consequence of the Taxation Laws Amendment Act which came into effect on 1 March 2016. In light of retirement fund contributions being funded from the TGP of prescribed officers, the decrease in contributions resulted in a commensurate increase in basic salary.*

[D] *The Aveng remuneration and nomination committee exercised its discretion to defer the payment of STI bonuses for the 2017 financial year.*

Prescribed officer: S Cummins (AUS)[A]

		2017 (AUD'000)	2016 (AUD'000)
Guaranteed pay[B]	Salary[C]	**1 064**	838
	Retirement	**154**	122
	Total	**1 218**	960
Variable / other cash remuneration	STI payment[D]	**–**	300
	Appointment award[E]	**400**	–
	Total	**400**	300
Total cash paid		**1 618**	1 260

Notes

[A] *S Cummins appointed 14 September 2015; earnings disclosed in AUD'000.*

[B] *S Cummins is remunerated on a total guaranteed package (TGP), made up of salary and retirement fund contributions.*

[C] *Salary for S Cummins is total fixed earnings inclusive of vehicle benefits.*

[D] *The Aveng remuneration and nomination committee exercised its discretion to defer the payment of STI bonuses for the 2017 financial year to later in the 2017 calendar year.*

[E] *The appointment award is paid in three equal tranches, this being the first tranche. The remaining tranches will be paid in July 2017 and July 2018.*

Shareholders' analysis

as at 30 June 2017

REGISTERED SHAREHOLDER SPREAD

Shareholder spread	Number of holders	% of total shareholders	Number of shares	% of issued capital
1 – 1 000 shares	1 894	48,99	626 978	0,15
1 001 – 10 000 shares	1 221	31,58	4 591 521	1,10
10 001 – 100 000 shares	422	10,92	15 528 999	3,73
100 001 – 1 000 000 shares	258	6,67	89 411 744	21,46
1 000 001 shares and above	71	1,84	306 511 689	73,56
Total	3 866	100	416 670 931	100

BENEFICIAL SHAREHOLDER CATEGORIES

Category	Total shareholding	% of issued capital
Unit trust / mutual fund	188 444 133	45,23
Pension funds	115 545 198	27,73
Trading position	17 963 390	4,31
Insurance companies	15 994 616	3,84
Private investor	15 046 803	3,61
Employees	14 604 979	3,51
Sovereign wealth	9 860 372	2,37
Black economic empowerment	8 586 593	2,06
Aveng LTIP	5 248 854	1,26
Hedge fund	4 702 772	1,13
Other managed funds	4 612 646	1,11
University	3 974 162	0,95
Medical aid scheme	2 321 560	0,56
Local authority	1 012 456	0,24
Custodians	946 049	0,23
Charity	829 949	0,20
Remainder	6 976 399	1,67
Total	416 670 931	100,00

PUBLIC AND NON-PUBLIC SHAREHOLDINGS

Shareholder type	Number of holders	% of total shareholders	Number of shares	% of issued capital
Non-public shareholders	8	0,13	28 645 887	6,87
Aveng Community Investment Trust	1	0,03	8 586 593	2,06
Aveng Limited Share Purchase Trust	1	0,03	6 018 386	1,44
Aveng Management Company	1	0,03	8 586 593	2,06
Aveng LTIP	2	0,03	5 248 854	1,26
Directors	2	0,03	205 461	0,05
Public shareholders	3 858	99,87	388 025 044	93,13
Total	3 866	100,00	416 670 931	100,00

Shareholders' analysis continued

as at 30 June 2017

BENEFICIAL SHAREHOLDERS HOLDING MORE THAN 3%

Beneficial shareholdings	Total shareholding	%
Allan Gray Balanced Fund	26 764 753	6,42
Investec Value Fund	25 535 012	6,13
Investment Solutions Limited	23 974 794	5,75
Eskom Pension Fund	14 486 849	3,48
Total	90 761 408	21,78

INVESTMENT MANAGEMENT SHAREHOLDINGS MORE THAN 3%

Investment manager	Total shareholding	%
Allan Gray Investment Council	103 861 025	24,93
Coronation Asset Management Proprietary Limited	62 583 834	15,02
Investec Asset Management	45 252 282	10,86
Visio Capital Management	34 851 550	8,36
Mazi Capital Proprietary Limited	20 592 178	4,94
Dimensional Fund Advisers	18 906 244	4,54
Total	286 047 113	68,65

GEOGRAPHIC SPLIT OF INVESTMENT MANAGERS AND COMPANY-RELATED HOLDINGS

Region	Total shareholding	% of issued capital
South Africa	371 099 141	89,06
United States of America and Canada	39 462 806	9,47
United Kingdom	1 291 517	0,31
Rest of World[1]	4 817 467	1,16
Total	416 670 931	100,00

GEOGRAPHIC SPLIT OF BENEFICIAL SHAREHOLDERS

Region	Total shareholding	% of issued capital
South Africa	345 639 107	83,08
United States of America and Canada	39 298 950	9,40
United Kingdom	1 291 521	0,32
Rest of Europe	18 466 656	4,43
Rest of World[1]	11 974 697	2,77
Total	416 670 931	100,00

[1] *Represented all shareholding except those in the above regions.*

Shareholders' diary

Financial year-end	30 June
Annual General Meeting	24 November 2017
Publication of results	
– Half-year ended 31 December 2017	27 February 2018
– Year ended 30 June 2018	31 August 2018

Independent auditor's report on summarised consolidated financial statements

To the shareholders of Aveng Limited

Opinion

The audited summarised consolidated annual financial statements of Aveng Limited, incorporated in the appendix section of this integrated annual report, which comprise the summarised consolidated statement of financial position as at 30 June 2017, the summarised consolidated statement of comprehensive earnings and changes in equity, and the summarised consolidated statement of cash flows for the year then ended, on pages 114, 115, 116 and 118 respectively, and related notes on pages 120 to 135, are derived from the audited consolidated Group annual financial statements of Aveng Limited for the year ended 30 June 2017.

In our opinion, the audited summarised consolidated annual financial statements derived from the audited consolidated Group annual financial statements of Aveng Limited for the year ended 30 June 2017 are consistent, in all material respects, with those consolidated financial statements, in accordance with the requirements of the JSE Limited Listings Requirements for abridged reports, set out in the Board approval on page 3, and the requirements of the Companies Act of South Africa as applicable to summarised financial statements.

Summarised financial statements

The audited summarised consolidated annual financial statements do not contain all the disclosures required by IFRS and the requirements of the Companies Act of South Africa as applicable to annual financial statements. Reading the audited summarised consolidated annual financial statements, therefore, is not a substitute for reading the audited consolidated Group annual financial statements of Aveng Limited. The audited summarised consolidated annual financial statements and the audited consolidated Group annual financial statements do not reflect the effect of events that occurred subsequent to the date of our report on the audited consolidated Group annual financial statements.

The audited financial statements and our report thereon

We expressed an unmodified audit opinion on the audited consolidated Group annual financial statements of Aveng Limited in our report dated 22 September 2017. That report included the communication of other key audit matters. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period.

Directors' responsibility for the audited summarised consolidated annual financial statements

The directors are responsible for the preparation of the audited summarised consolidated annual financial statements in accordance with the requirements of the JSE Limited Listings Requirements for abridged reports, set out in the Board approval on page 3, and the requirements of the Companies Act of South Africa as applicable to summarised financial statements, and for such internal control as the directors determine is necessary to enable the preparation of the audited summarised consolidated annual financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on whether the audited summarised consolidated annual financial statements are consistent, in all material respects, with the audited consolidated Group annual financial statements based on our procedures, which were conducted based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), *Engagements to Report on Summarised Financial Statements.*

Ernst & Young Inc.
Director: Allister Jon Carshagen

102 Rivonia Road
Johannesburg
Gauteng
South Africa
2146

20 October 2017

Summarised consolidated 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 consolidated 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 consolidated statement of changes in equity

for the year ended 30 June 2017

	Share capital Rm	Share premium Rm	Total share capital and premium Rm
Balance at 1 July 2015	20	2 003	2 023
Loss for the period	–	–	–
Other comprehensive earnings for the period (net of taxation)	–	–	–
Total comprehensive earnings for the period	–	–	–
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 bond equity reserve			
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**
Loss for the period	**–**	**–**	**–**
Other comprehensive loss for the period (net of taxation)	**–**	**–**	**–**
Total comprehensive loss for the period	**–**	**–**	**–**
Equity-settled share-based payment charge	**–**	**–**	**–**
Foreign currency translation movement	**–**	**–**	**–**
Dividends paid	**–**	**–**	**–**
Total contribution and distributions recognised	**–**	**–**	**–**
Balance at 30 June 2017	**20**	**1 989**	**2 009**

Foreign currency translation reserve Rm	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
757	15	390	1 162	9 790	12 975	23	12 998
–	–	–	–	(101)	(101)	36	(65)
777	–	–	777	–	777	9	786
777	–	–	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)
1 534	**19**	**268**	**1 821**	**9 689**	**13 519**	**37**	**13 556**
–	**–**	**–**	**–**	**(6 708)**	**(6 708)**	**(31)**	**(6 739)**
(773)	**–**	**–**	**(773)**	**–**	**(773)**	**–**	**(773)**
(773)	**–**	**–**	**(773)**	**(6 708)**	**(7 481)**	**(31)**	**(7 512)**
–	**12**	**–**	**12**	**–**	**12**	**–**	**12**
–	**–**	**–**	**–**	**–**	**–**	**5**	**5**
–	**–**	**–**	**–**	**–**	**–**	**(3)**	**-3**
–	**12**	**–**	**12**	**–**	**12**	**2**	**14**
761	**31**	**268**	**1 060**	**2 981**	**6 050**	**8**	**6 058**

Summarised consolidated 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

	Notes	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 consolidated 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 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**
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**

Notes to the summarised consolidated financial statements continued

for the year ended 30 June 2017

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.

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.

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.

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 and 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 and 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 and 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 and 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.

Notes to the summarised consolidated financial statements continued

for the year ended 30 June 2017

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			Manufacturing and Processing			Other and Eliminations			Total		
2017 Rm	2016 Rm	%	2017 Rm	2016 Rm	%	2017 Rm	2016 Rm	%	2017 Rm	2016 Rm	%
–	–	–	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)

Notes to the summarised consolidated financial statements continued

for the year ended 30 June 2017

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)

Notes to the summarised consolidated financial statements continued

for the year ended 30 June 2017

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 Gross of taxation Rm	2017 Net of taxation Rm	2016 Gross of taxation Rm	2016 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)
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 net movement on deferred taxation amounts to R535 million (2016: R199 million) in the statement of comprehensive earnings.*

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.

Notes to the summarised consolidated financial statements continued

for the year ended 30 June 2017

	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.

	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.

Finance lease liabilities are payable as follows:

	2017 Rm	2016 Rm
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**

Appendix

Notes to the summarised consolidated financial statements continued

for the year ended 30 June 2017

		2017 Rm	2016 Rm
12.	**Payables other than contract-related** continued		
	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.

Notes to the summarised consolidated financial statements continued

for the year ended 30 June 2017

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.

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.

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.

Corporate information

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