Audited consolidated annual financial statements

2017

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General information

Country of incorporation and domicile	South Africa	
Directors	Mr Eric Diack (Executive Chairman)	Appointed 23 August 2017
	Ms Kholeka Mzondeki (Lead Independent Director)	Appointed 23 August 2017
	Mr Philip Hourquebie	
	Mr Hendrik Jacobus Verster	Resigned 22 September 2017
	Mr Angus Band	Retired 19 August 2016
	Mr Mahomed Seedat	
	Mr Juba Mashaba	
	Mr Peter Erasmus	
	Ms Mavis Ann Hermanus	
	Mr Michael Kilbride	
	Ms Thoko Mokgosi-Mwantembe	
	Mr Adrian Macartney	
	Mr Sean Flanagan	
Auditors	Ernst & Young Inc.	
Secretary	Michelle Nana	
Company registration number	1944 / 018119 / 06	
Level of assurance	These consolidated annual financial statements have been audited in compliance with the applicable requirements of the Companies Act 71 of 2008 (as amended) of South Africa.	
Supervised by	The audited consolidated annual financial statements were prepared by: Dirk van Zyl CA(SA) under the supervision of: Adrian Macartney CA(SA), Group CFO	
Published	26 September 2017	

Audit Committee report

The Audit Committee has been constituted in accordance with applicable legislation and regulations. The committee members are all independent non-executive directors of Aveng Limited and its subsidiaries. Four Audit Committee meetings and four special Audit Committee meetings were held during the year, at which the members fulfilled their functions as prescribed by the Companies Act 71 of 2008 (as amended) of South Africa. The Audit Committee confirms that it is satisfied with the independence of its external auditor, Ernst & Young Inc. The full report on the functions of the Audit Committee will be available in the corporate governance report on 23 October 2017 on the Group's website.

In accordance with the Johannesburg Stock Exchange Limited ("JSE") Listings Requirements, the Audit Committee is required to consider the appropriateness of the expertise and experience of the Group CFO. In respect of this requirement and for the year under review, the committee is satisfied that Mr Adrian Macartney, the Group CFO, possesses the appropriate expertise and experience to fulfil his responsibilities in that position.

Statement on internal financial controls

Based on information from and discussions with management and the Group internal audit function, the Audit Committee confirms that it has no reason to believe that there were any material breakdowns in the design or operating effectiveness of internal financial controls during this financial year which have not been addressed or are not in the process of being addressed. The financial records can therefore be relied on for preparing the consolidated annual financial statements.

Liquidity and going concern

As included in the directors' report, and further detailed in *note 7* to the financial statements, 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 forecast, including all available information, and are therefore of the opinion that the going concern assumption is appropriate in the preparation of the financial statements.

This committee has interrogated the key assumptions used in determining the cash flow forecasts used in the going concern assessment, including the post-year-end term sheet agreed with major funding institutions and other initiatives already embarked on by the Group. The committee was satisfied that the assumptions are supportable. The committee was further satisfied with the post-year-end event, going concern and liquidity disclosures in the directors' report and within the notes to the financial statements.

Change in composition of the Audit Committee

In August 2017, the appointment of Mr Eric Diack as executive chairman of the Group required a change in the composition of the Audit Committee. Mr Diack stepped down as chairman and member of the Audit Committee. Mr Philip Hourquebie was changed from a standing member to that of the chairperson of the Audit Committee. Mr Peter Erasmus who is an independent non-executive director, was appointed to replace Mr Diack as a member of the Audit Committee.

Statement on internal control and risk management

The risk management and internal audit functions monitor the effectiveness of internal control systems and make recommendations to management and the Audit and Risk Committee. The Board has therefore concluded, based on recommendation of the Audit Committee and their own understanding, 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. For further information, refer to the corporate governance report that will be available on the Group's website on 23 October 2017.

PA Hourquebie
Chairman
Audit Committee

22 September 2017

Executive chairman's report

Aveng has been faced with a perfect storm of major challenges which have had a material impact on the Group's financial performance in 2017. We have acted decisively in addressing these challenges to ensure that Aveng is able to operate sustainably.

Overview

During the year to 30 June 2017, Aveng reported a headline loss of R6,4 billion (2017: R299 million loss) attributable to a number of detrimental events. During the first half of the year, arbitration rulings for the Kenmare Resources and Mokolo Water Augmentation contracts resulted in awards well below our expectation. This, together with a highly litigious environment, precipitated a review of long-outstanding uncertified revenue. It was decided that we should focus on commercial settlements rather than the pursuit of adversarial, unpredictable, time consuming and expensive litigation which adversely impacts our relationships with our customers. In addition, subsequent to the year-end, the long-running dispute with the Queensland Curtis Liquefied Natural Gas (QCLNG) pipeline project which McConnell Dowell executed with a joint venture partner, was 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 a non-cash amount of R5,1 billion in uncertified revenue (R2,4 billion of which relates to the QCLNG award) and various other impairments, resulting in a major derisking of our balance sheet.

These circumstances were compounded by underperformance in most of Aveng's businesses due to worsening trading conditions and operational performance.

Liquidity

Following the announcement of the QCLNG award, we entered into discussions with our major funding banks which resulted in a renewal and extension of all of these facilities. The discussions with the banks together with the finalisation of the uncertified revenue write-downs resulted in a delay in the announcement of our results.

Aveng has 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 planned operational performance.

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, an independent non-executive director, succeeded me as chairman of the Audit Committee and Peter Erasmus, an independent non-executive director, was appointed a member of the committee. Kholeka Mzondeki, also an independent non-executive director, was appointed the lead independent director of Aveng.

Kobus Verster resigned as Chief Executive Officer with immediate effect, on 22 September 2017 and I will assume the duties of Executive chairman and Chief Executive Officer.

Strategic review

The Board has initiated a robust strategic review, in conjunction with an independent advisor, to evaluate Aveng's financial and operational structure. The objective is to determine the key requirements to ensure the Group's medium- and long-term sustainability. The review will identify the core operating businesses and assets that will be part of the Group's long term strategy. Further, the review will include the development of a sustainable capital and funding model, which will 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, after which I will communicate its outcomes. Non-core assets have been identified for disposal and proceeds will be earmarked for the reduction of debt or the creation of additional liquidity headroom.

Outlook

The outlook for the South African economy remains relatively weak and in the absence of public sector investment in major infrastructure development our South African operations will continue to pursue selective opportunities in the mining, building and smaller municipal infrastructure project sectors.

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.

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, with 92% of revenue secured for 2018.

I would like to thank our customers, suppliers and most importantly all of our employees for their continued support in these difficult times. I would also like to thank our major funding banks for their ongoing support.

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

EK Diack
Chairman

22 September 2017

Certificate of the company secretary

I, the undersigned, Michelle Nana, in my capacity as company secretary, certify that:

- the Company has lodged with the Companies and Intellectual Property Commission all such returns as are required of a public company in terms of the Companies Act 71 of 2008 (as amended) of South Africa; and
- all such returns are true, correct and up to date.

Michelle Nana
Company secretary

22 September 2017

Directors' report

The directors submit their report for the year ended 30 June 2017.

1. REVIEW OF ACTIVITIES

Nature of business

The consolidated annual financial statements ("results") comprise the financial results of Aveng Limited and its subsidiaries ("the Group") at 30 June 2017. Aveng Limited ("the Company") is a South African registered and listed company, included in the Construction and Materials – Heavy Construction sector of the Johannesburg Stock Exchange ("JSE") (listing reference: "AEG") with interests in construction, contract mining and steel beneficiation. Primary subsidiaries include Aveng (Africa) Proprietary Limited and Aveng Australia Holdings Proprietary Limited.

Group financial results

The Group has experienced a challenging year and due to the magnitude of events that have transpired during the period, adjustment to claims and uncertified revenue to the value of R5,1 billion have been recognised against revenue.

Aveng Limited reported a substantially increased headline loss of R6,4 billion or (1 625,3) cents per share for the year ended 30 June 2017, compared to a headline loss of R299 million or (75,2) cents per share for the preceding year. Revenue declined by 30,5% to R23,4 billion (2016: R33,8 billion) mainly due to claims write-down, and in line with the poor macro-economic climate, with McConnell Dowell being most significantly impacted. Net operating loss of R5,4 billion from R146 million earnings in June 2016 is primarily due to weak trading conditions in the South African market, which have impacted the overall business performance. Operational underperformance at Aveng Grinaker-LTA and McConnell Dowell and an increase in net interest expense has resulted in the decline of the underlying performance.

The Group generated a basic loss attributable to equity holders of the parent of R6,7 billion (2016: R101 million loss).

Full details of the financial position, performance and changes therein for the Group are set out in the consolidated financial statements on pages 16 to 120.

Impairment of goodwill, property, plant and equipment and related intangible assets

An impairment charge of R220 million was recognised against property, plant and equipment and R52 million against intangible assets in Aveng Trident Steel. The remaining R6 million relates to underutilised assets in various businesses.

Going concern, funding and liquidity

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 financial performance of the Company depends on the wider economic environment in which the Company operates. Management has prepared a budget for the 2018 financial year as well as for the following two years, as well as cash flow forecasts covering a minimum of 12 months from the date of these financial statements. These forecasts have been reviewed by independent external advisers to ensure that they have been accurately compiled using appropriate assumptions. These forecasts and plans, being implemented by management, indicate that the Company will have sufficient cash resources for the foreseeable future.

The Group has cash of R2,0 billion at year-end, R625 million of which is held in joint arrangements. Advance payments that will be used in the short term amount to R146 million while short-term debt repayments are R703 million. After working capital requirements of R800 million and unutilised facilities of R1,4 billion the Group has liquidity headroom of R1,1 billion.

Following the QCLNG outcome, McConnell Dowell has received compensation of AUD50,5 million (R508 million) including interest, being 50% of the total award to the joint venture. This has been used to repay the Australian facility with HSBC and ANZ Banks.

Short term liquidity of the Group is found to be satisfactory to the Board with liquidity headroom of R1,1 billion.

Events after the reporting period supporting the going concern assertion

Subsequent to the year-end, and following the reported outcome of the QCLNG award, the Group engaged with its major funding banks that currently provide various facilities under existing agreements. Refer *note 51*. 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 same with the major funding banks and expects this to be completed in due course.

1. REVIEW OF ACTIVITIES continued

Events after the reporting period supporting the going concern assertion continued

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

With a view to the medium- and long-term sustainability 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 convertible bonds maturing in July 2019; and
- 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.

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. 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 South Africa, and a portion will be either earmarked or utilised to further enhance the working capital of the Group.

Confirmation of the going concern assertion

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.

For further information on all of the disclosures included above, refer to *note 7* in the financial statements.

Unconsolidated structured entities

The Group has the following structured entities which are not consolidated:

Community Investment Trust

The trust makes donations to public benefit organisations involved in technical and business education, as well as job creation initiatives aligned to the broader building and construction industry.

Empowerment Trust

The trust was formed for the benefit of employees. Trustees allocate units in the Empowerment Trust to employees to recognise their contributions to the development of the Group. As at 30 June 2017, the trust had no assets and liabilities and will be unwound in the 2018 financial year.

Capital expenditure

Capital expenditure of R928 million for the year (2016: R494 million) related to R135 million (2016: R175 million) of expansion investment, R793 million (2016: R319 million) replacement investment in property, plant and equipment, and R27 million (2016: R16 million) investment in intangible assets. Net book value of property, plant and equipment disposed of amounted to R168 million (2016: R95 million).

Queensland Curtis Liquefied Natural Gas ("QCLNG") contract

McConnell Dowell (a 100% subsidiary of Aveng), together with its joint venture partner, was responsible for the execution of the QCLNG project in Australia over a four-year period that started in 2010. Following various contractual disputes and a protracted arbitration process, the International Chamber of Commerce ("ICC") has determined that McConnell Dowell is entitled to receive compensation in the amount of AUD50,5 million (R508 million) (including interest), being 50% of the total award to the joint venture.

The compensation received is below the value of the recorded claims, and the Group has therefore recorded a non-cash write-down of AUD235 million (R2,4 billion) in its reported results for the year ended 30 June 2017.

Protracted legal proceedings relating to uncertified revenue

Included in amounts due from contract customers are balances of R908 million that are subject to protracted legal and commercial proceedings. This balance has materially reduced due to the non-cash write-downs explained above.

Directors' report continued

2. MAJOR BUSINESS ACQUISITIONS AND DISPOSALS OF ASSETS

Business restructuring

Aveng continues to review its portfolio of businesses to ensure that they are able to generate an acceptable return in the current market. To this end the following actions have been taken this year:

- Aveng Water has been repositioned and is set to leverage the advantage that Aveng has built in this market; and
- The Group's Africa strategy has been reprioritised and will focus on specific sectors for select clients in the rest of Africa.

Non-current assets held-for-sale

This balance has reduced following the ACP assets and Steeledale being sold. The remaining assets related to properties that were transferred in the prior the year.

3. EVENTS AFTER THE REPORTING PERIOD

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 authorities. The effective date of the transaction is 1 October 2017 subject to all the conditions precedent being met.

Aveng Trident Steel

Negotiations in relation to the disposal of Aveng Trident Steel have been terminated. An agreement on acceptable value has not been reached. With the termination of negotiations, we intend to further strengthen Aveng Trident Steel, including capitalising on its leading position within the automotive sector and consider the options for this business going forward.

4. SHARE CAPITAL AND SHARE PREMIUM

Details pertaining to the authorised and issued share capital of the Company at 30 June 2017 are contained in *note 22* of the consolidated annual financial statements.

5. DIRECTORS

In terms of the Company's memorandum of incorporation, the directors listed below will retire by rotation at the forthcoming Annual General Meeting and will be eligible for re-election:

- Mr Philip Hourquebie;
- Mr Adrian Macartney;
- Ms Thoko Mokgosi-Mwantembe*; and
- Mr Mahomed Seedat*.

* *It should be noted that both non-executive directors, Ms Thoko Mokgosi-Mwantembe and Mr Mahomed Seedat, are retiring by rotation in accordance with the articles of association. Further both of these non-executive directors have confirmed that they will not be making themselves available for re-election. The Board of directors would like to thank them for their contributions made during their tenure.*

There were two changes in the directorate since the last year-end and that was the retirement of Mr Angus Band on 19 August 2016 and the resignation of Mr Kobus Verster on 22 September 2017.

Details of the directors' remuneration and interests are set out in *note 47: Directors' emoluments and interests* of the consolidated annual financial statements.

6. AUDITORS

Ernst & Young Inc. continued in office as the external auditors of the Group. At the Annual General Meeting shareholders will be requested to appoint Ernst & Young Inc. as the Group's auditors for the 2018 financial year.

7. SHAREHOLDERS

The following information will be available on 23 October 2017 on the Group's website:

- Shareholders' diary;
- An analysis of shareholders including shares held by directors; and
- Notice of Annual General Meeting.

8. MANAGEMENT ANALYSIS OF ITEMS THAT HAVE OCCURRED IN THE REPORTING PERIOD (UNAUDITED)

Given the significant impact of the changes in estimate and the results of certain contract awards, management has provided the following table and associated notes to enhance the user's understanding of the underlying performance of the business.

	Earnings Rm	Noted items Rm	Total Rm
Revenue[1.1, 1.2, 1.3]	23 456	3 986	27 442
Cost of sales[1.2]	(26 591)	1 131	(25 460)
Gross earnings	(3 135)	5 117	1 982
South African government settlement[2]	(165)	165	–
Net adjusted (loss) / operating earnings	(5 395)	5 282	(113)
Impairment of property, plant and equipment and intangible assets[3]	(278)	278	–
(Loss) / earnings before taxation	(6 113)	5 560	(553)
Taxation[4]	(626)	531	(95)
(Loss) / earnings for the period	(6 739)	6 091	(648)
(Loss) / earnings for the period attributable to:			
Equity holders of the parent	(6 708)	6 091	(617)
Non-controlling interest	(31)	–	(31)
Headline earnings	(6 449)	5 819	(630)
EBITDA	(4 740)	5 282	542
Results per share (cents)			
(Loss) / earnings – basic	(1 690,6)	–	(155,5)
Headline loss – basic	(1 625,3)	–	(158,8)

1.1 QCLNG award

McConnell Dowell (a 100% subsidiary of Aveng), with its joint venture partner, was responsible for the execution of the QCLNG project in Australia over a four-year period that began in 2010. Following various contractual disputes and a protracted arbitration process, Aveng received compensation that is below the value of the recorded claims, and has therefore had to record a non-cash write-down of AUD235 million (R2,4 billion) in its reported results for the year ended 30 June 2017. Refer to *note 6.*

1.2 Other long-outstanding uncertified revenue

The Group has re-evaluated certain long-outstanding uncertified revenue and related costs. The progress on the various outstanding claims and project performance is assessed in the context of current performance of the business and current and expected future conditions. This has resulted in a non-cash write-down of R2,7 billion (revenue – R1,6 billion and cost of sales – R1,1 billion) in the current reporting period. Refer to *note 6*.

1.3 Loss on arbitration on Kenmare resources

During the reporting period, a counterclaim against the Group was awarded to Kenmare Resources to the value of R150 million for professional indemnity insurance in place during the time of the related project. The Group has lodged a claim against the insurer to recover this amount and had disclosed a contingent asset in this regard. Refer to *note 45*.

2. South African government settlement

During the period, the Group had extensive negotiations with the South African government and the participating construction companies. The negotiations culminated in a settlement agreement which addresses outstanding legacy issues and commits to a plan which will ensure the repositioning of the South African construction sector. A provision to a discounted value of R165 million has been recognised, with the first payment made during the financial year. Refer to *note 24*.

3. Aveng Trident Steel impairment

Following the latest review and in the context of the continuing subdued trading conditions in the steel market, an impairment charge of R220 million is recognised against plant and equipment and R52 million against intangible assets in Aveng Steel. Refer to *note 9*.

4. Derecognition of deferred tax asset

The write-down of the uncertified revenue and claims, as well as any valuation of the recoverability of the asset within the foreseeable future, had an impact on the deferred tax asset resulting in a derecognition of R531 million. Refer to *note 6*.

Directors' report continued

9. DIRECTORS' RESPONSIBILITY RELATING TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

The directors of the Company are responsible for maintaining adequate accounting records and are responsible for the content and integrity of the consolidated annual financial statements and related financial information included in this report. It is their responsibility to ensure that the consolidated annual financial statements fairly present the state of affairs of the Group as at the end of the financial year and the results of its operations and cash flows for the period ended 30 June 2017.

The consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") of the International Accounting Standards Board ("IASB"), the South African Institute of Chartered Accountants ("SAICA") Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the requirements of the Companies Act 71 of 2008 (as amended) of South Africa, and the Listings Requirements of the JSE.

The directors acknowledge that they are responsible for the system of internal financial control established by the Group and place considerable importance on maintaining a strong control environment. These controls are designed to provide reasonable, but not absolute assurance, as to the reliability of financial records and the consolidated annual financial statements, to adequately safeguard, verify and maintain accountability of assets and to prevent and detect material misstatements and losses.

To enable the directors to meet these responsibilities, the Board of directors sets standards for internal control aimed at reducing the risk of error or loss in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework; effective accounting procedures; and adequate segregation of duties which are required to maintain the highest ethical standards in ensuring the Group's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Group is on identifying, assessing, managing and monitoring all known forms of risk across the Group. While operating risk cannot be fully eliminated, the Group endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviours are applied and managed within predetermined procedures and constraints.

The directors have reviewed the Group's cash flow forecast for the year ending 30 June 2018 and in light of this review and the current financial position, are satisfied that the Group has access to adequate resources to continue in operational existence for the foreseeable future and accordingly the consolidated annual financial statements are prepared on a going concern basis.

The external auditors are responsible for independently reviewing and reporting on the Group's consolidated annual financial statements. Their unmodified report to the shareholders of the Company is set out on pages 9 to 15.

Approval of consolidated annual financial statements

The consolidated annual financial statements of the Group for the year ended 30 June 2017 set out on pages 16 to 120, which have been prepared on the going concern basis, were approved by the Board of directors on 22 September 2017 and were signed on its behalf by:

EK Diack
Executive Chairman

AH Macartney
Group CFO

Independent auditor's report to the shareholders of Aveng Limited

REPORT ON THE AUDIT OF ANNUAL FINANCIAL STATEMENTS

Opinion

We have audited the Consolidated and Separate financial statements of Aveng Limited (the "Group" and the "Company") set out on pages 16 to 120, which comprise the Consolidated and Separate statements of financial position as at 30 June 2017, and the Consolidated and Separate statements of comprehensive income, the Consolidated and Separate statements of changes in equity and the Consolidated and Separate statements of cash flows for the year then ended, and the notes to the Consolidated and Separate financial statements, including a summary of significant accounting policies.

In our opinion, the Consolidated and Separate financial statements present fairly, in all material respects, the Consolidated and Separate financial position of the Group and the Company as at 30 June 2017, and its Consolidated and Separate financial performance and its Consolidated and Separate cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and the requirements of the Companies Act of South Africa.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") and the Code of Professional Conduct for Registered Auditors of the Independent Regulatory Board for Auditors of South Africa (the "IRBA Code"), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code and the IRBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Consolidated and Separate financial statements of the current period. These matters were addressed in the context of our audit of the Consolidated and Separate financial statements taken as a whole, and in forming our opinion thereon, and the report below is not intended to constitute separate opinions on these key audit matters. The key audit matters noted below relate to the Consolidated and Separate financial statements.

The key audit matters detailed overleaf are all applicable at an Aveng Limited Group level. We have determined that there are no key audit matters relating to the Company except for KAM1.

Independent auditor's report to the shareholders of Aveng Limited continued

Assessment of key audit matter

How the matter was addressed in the audit

1 Events after the reporting period – Liquidity and solvency, recapitalisation of McConnell Dowell, Group funding renegotiation, and evaluation of the effect on the going concern assumption

Assessment of key audit matter

The announcement of the QCLNG award (refer KAM3) in Australia after the reporting period resulted in the Group recording a number of transactions. These transactions affected:

- the solvency of McConnell Dowell Corporation subsidiary; and
- the availability of sufficient liquidity into the foreseeable future in the Aveng Group

This resulted in the recapitalisation of the McConnell Dowell Corporation subsidiary, and the consideration of the impact of these events on the Group's ability to continue meeting its obligations into the foreseeable future. These events are important considerations for the application of the going concern assertion for the Group and Company as required of the directors.

Post the year-end, the Group and Company extended its existing funding facility agreements with South African Funding Bankers under a common terms sheet. All facilities were converted to a thirteen month term period and new financial covenants and events of default were agreed. The Group committed to a disposal plan for the realisation of non-core assets to support its liquidity needs.

This renegotiation for the extension of facilities supported the recapitalisation of McConnell Dowell Corporation; including paying down the subsidiary's local lenders at year-end, and providing a liquidity injection to the subsidiary.

The impact on both going concern and liquidity arising from these events after the reporting period are interdependent, and consequently are considered to be a key audit matter. These events were deemed to be complex and required management to engage professional legal and financial experts to assist. The new term sheet and undertakings agreed with the funders post year-end are significant to our audit as they impact the liquidity model in the Group.

Management included the new funding facility term sheet in the liquidity forecast model approved by the Board. This forecast model required evaluating the forecast operating free cash flows for the Group, assessing post year-end liquidity performance, updating the model for the impact of all known events at the time of conclusion, and testing the model against a series of sensitivities on primary inputs before approval by the Board. The evaluation and conclusion process by the Board are key aspects that support the going concern assertion.

Specific auditor attention was required to assess whether the judgements and assumptions applied by management in the liquidity model are appropriate under the new funding facility term sheet, whether the sensitivities applied are sufficient, whether all known facts and circumstances related to the non-core asset disposal plan have been appropriately taken into consideration, and whether the evaluation of overall liquidity headroom was appropriate. The model was based on the same forecasts used to support the recognition of the Deferred Tax Asset (as discussed in KAM4).

How the matter was addressed in the audit

Our audit procedures included:

- Understanding the process management have followed to make their assessment regarding the going concern assumption.
- Evaluating the assumptions on which management's assessment is based.
- Evaluating management's plans for future actions including the disposal of non-core assets and their ability to execute the plans at appropriate realisable values.
- Evaluating the appropriateness of the budget and forecast systems in place.
- Evaluating the reliability of the underlying data generated to prepare the forecasts.
- Comparing prior period forecasts with historical results to assess the accuracy of management's forecasting abilities.
- Comparing the current period forecasts with results achieved to date.
- Evaluating the assumptions and forecasts made by management in the 2017 Budget and the 2017-2019 Plans.
- Inspecting whether the liquidity forecasting model is consistent with the budgets and forecasts used to support the deferred taxation balance and Cash Generating Unit (CGU) impairment assessments.
- We have specifically devoted attention to the assumptions made with respect to the future initiatives, the results and the cash flows in order to assess the Company's ability to continue meeting its payment obligations and its obligations under the financing covenants in the year ahead.
- Evaluating the existence, adequacy and terms of borrowing facilities.
- Obtaining the signed common terms sheet from the SA Funding Bankers indicating that they have agreed to extend the existing facilities and an additional facility of R150m to 31 October 2018.
- Inspecting the external legal opinion obtained in relation to the Companies Act requirements relating to solvency, liquidity and going concern.
- Inspecting the minutes of the Board meeting evidencing that the directors have assessed the Companies Act requirements in relation to the solvency, liquidity and going concern of the Group.
- Understanding and evidencing the recapitalisation of Aveng Australia Holdings and McConnell Dowell Corporation in order for the entities to continue as a going concern.
- Inspecting the Board approval and the consent of the SA Funding Bankers for the recapitalisation.
- Enquiries and discussions with component auditors of McConnell Dowell Corporation to evaluate impact of subsidiary on the Aveng Group.

Refer to page 44 for the going concern principle section and pages 98 and 99 of the financial statements for the notes on the going concern assumption and financing requirements.

Assessment of key audit matter	*How the matter was addressed in the audit*
2 Accounting for contracts	
The Group has significant long-term contracts in the construction, engineering and mining operating segments. The construction, engineering and mining industries are characterised by contract risk with significant judgements involved in the assessment of the anticipated final contract outcomes. Changes in any of the significant judgements could result in a material variance in the amount of earnings or losses recognised from individual contracts. As a result, accounting for contracts is considered to be a key audit matter. Contract accounting is considered to be an ongoing significant audit risk to the Group as it requires management to exercise a high degree of estimation and judgement in their assessment of the revenue recognition resulting from the contract stage of completion, contract variations and claims; the completeness and accuracy of forecast costs to complete; and the ability to deliver contracts within the requirements of each contract. Furthermore, the Group executes contracts in numerous geographic and operational markets which adds to the complexity of applying judgement. The Group recognised revenue for the year totalling R23 456m. As at 30 June 2017 the Group had recognised net uncertified claims and variations for the year amounting to R1 760m (2016: R6 584m) as well as related contract contingencies of R701m (2016: R390m).	Our audit procedures were focused on a selection of contracts using a variety of quantitative and qualitative factors in selecting which contracts to test. The most significant factors included high value contracts, significant loss making contracts and contracts with significant claims. In this way our audit was focused on assessing and challenging the most significant and more complex contract positions. For each of the contracts selected we performed the following procedures: ◆ Discussed and assessed the status of selected contracts with management, finance, and technical staff. ◆ We also performed specific procedures to determine that: – the expected revenue used in the percentage of completion calculation has been reconciled to signed contracts and variation orders; and – the appropriate cost categories have been included in work in progress and that variation orders and claims have been properly taken into account when determining the valuation of work in progress; and the resulting estimated cumulative result on contracts. ◆ With respect to revenue recognised for variation orders and claims raised against customers: – We inspected supporting documents in order to confirm that such revenue was recognised only once it could be reliably measured and considered to be at an advanced stage of negotiation. – Where applicable, we also inspected correspondence with customers concerning variation orders and claims and obtained third-party assessments from legal counsel contracted by the Group in order to assess whether the information was consistent with the estimates made by management. ◆ Engaged our own internal engineer to conduct site visits on certain key contracts and to assist in challenging management's assumptions relating to the expected costs to complete. The engineer would also consider supporting documentation such as customer certifications, forecast models and comparing previous cost estimates against actual results and examining variation and claim agreements; ◆ Inspected the contracts for key clauses, identifying relevant contractual mechanisms such as liquidated damages and success fees and considered their impact on the completeness and existence of the amounts recognised in the financial statements. ◆ We tested the sensitivity of all inputs and estimates by primarily comparing these to industry benchmarks and peer group analysis. *Refer to pages 29 to 31 and 37 to 39 (Accounting policies), note 6 on page 43 (Significant change in estimates) and note 17 on page 58.*

Independent auditor's report to the shareholders of Aveng Limited continued

Assessment of key audit matter	*How the matter was addressed in the audit*

3 Recognition and recoverability of uncertified claims and variations

Included in the Group's receivable balance due from contract customers of R4 468m (2016: R9 464m) is R908m (2016: R4 709m) which comprises revenue not yet certified, amounts due from customers, and amounts that are currently subject to protracted legal or arbitration proceedings.

Since the ultimate outcome of asserted claims and proceedings cannot be predicted with certainty, an adverse outcome could have a material adverse effect on the financial position and results of the Group, including debt covenant compliance; resulting in the identification of a significant financial statement risk. The accounting for these claims and proceedings is complex and highly judgemental, and the amounts involved are material to the financial statements as a whole.

As a result, the recognition and recoverability of uncertified claims and variations is considered to be a key audit matter.

Legal and arbitration rulings in South Africa and Australia during the last six months have resulted in substantially lower than expected awards. In addition there has been an accompanying high amount of legal fees and senior management time involvement (opportunity cost) in pushing the claims to finalisation. A decision was therefore taken by Group management together with the Board to reassess the long outstanding claims and variations recognised in the financial statements. This view was borne out by the recent QCLNG arbitration award. This assessment has resulted in a write off of R4 842m (including QCLNG write off) of the uncertified revenue in the current financial year.

The decision as to which of the long-outstanding uncertified revenue amounts to be written off required management judgement due to the complex nature of the claims. The progress on the various outstanding claims and projected performance is assessed in the context of current performance of the business, the current business environment and expected market conditions.

The following judgements and considerations were made by management in determining the amount of the write off and which required specific auditor attention:

- Certain unfavourable claim settlement awards, most notably the recent QCLNG award, which realised substantially less than the carrying value, together with the previously reported Kenmare Resources and Mokolo Crocodile Water Augmentation awards in South Africa. The current economic climate has resulted in an ever increasingly 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 limitations such a process has placed on management's ability to balance the value of commercial settlements with the associated costs, business disruptions, client relationships and impact on the Group's reputation.

Specific auditor attention was required to assess whether the judgements and considerations made by management, which are listed above, were appropriately and consistently applied.

Outcome of the Queensland Curtis Liquefied Natural Gas Joint Venture Claim ("QCLNG") – McConnell Dowell

The QCLNG claim in Australia totalled approximately 50% of the amount subject to protracted legal and arbitration proceedings. Following negotiations, this matter was referred to formal arbitration during 2014 and the final arbitration award was made on 28 July 2017 for R508m. The claim recognised in the financial statements of R2 850m was impaired by R2 350m to reflect the actual amount receivable under the claim award.

The outcome of this arbitration occurred post 30 June 2017 year end. This is considered to be an adjusting event after the reporting period as it gives rise to further information of a matter which existed at year end.

This ruling is complex and required interpretation and summary by a legal expert. The interpretation included assessing whether the award is final and binding.

In response to these risks, our audit procedures included, amongst others:

- Enquiries with legal counsel, financial staff and directors in respect of ongoing claims and proceedings;
- Challenging the judgements on the expected settlement and corroborated explanations through inspection of correspondence, claims lodged against customers and evaluating the historic success rate in estimating the outcome of claims;
- Meeting with external legal counsel and internal commercial advisors and assessing their estimates of likely outcomes to that recognised in the accounting records of the Group by the financial accountants. Furthermore we obtained confirmations from external legal counsel opining on the probable outcome of the claims and their best estimates of the quantum of the claims.
- Inspecting the minutes of relevant board meetings;
- Evaluating the adequacy of the financial statement disclosures regarding these claims and legal proceedings.
- Assessing the assumptions used by management in determining which long outstanding claims will be written off to ensure that a consistent approach was adopted and that the revised project positions are reasonable and fairly stated.
- Performed detailed substantive testing on the projects where management provided for long-outstanding amounts due from contract customers in order to assess that the adjustments in the current year relate to a change in management's estimate as a result of new information arising in the current period.
- Inspecting the full and summarised QCLNG award ruling and verified the receipt thereof to a subsequent bank statement.

Refer to pages 29 to 31 and 37 to 39 (Accounting policies), note 6 on page 43 (Significant change in estimates) and note 17 on page 58.

Assessment of key audit matter	*How the matter was addressed in the audit*
4 Recognition of deferred tax assets	
The Group has recognised net deferred tax assets of R1 401m (2016: R1 860m) arising from past tax losses that will be realised in the future. Included in the net movement for the year are capitalised tax losses of R531m which have been impaired during the year. In addition a deferred tax asset has not been recognised in relation to further tax losses amounting to R8 252m (2016: R1 626m) due to the uncertainty of future taxable profits. The recoverability of assets recognised could vary significantly if different assumptions are applied in estimating future taxable profits and the ability to utilise the capitalised tax losses. As a result, it is considered to be a key audit matter. The assumptions of most significance to this assessment are related to the taxable income expected to be generated based on a five year forecast which includes certain restructuring and corporate actions, which will generate additional taxable income such as the proposed Aveng Grinaker-LTA transaction and the inclusion of Aveng Mining into Aveng Africa with effect from 1 July 2017.	Our audit procedures included: ◆ Evaluating and challenging the assessments performed by management with regard to future taxable income, and the realisation of the deferred taxation, by comparing their assessment to evidence obtained, such as approved cash flow forecasts, corporate actions and business plans. ◆ Performing sensitivity analyses around the key assumptions used including growth projections / estimates in respect of margins. ◆ Reviewing management's taxation planning strategies and understanding specific local taxation issues. ◆ We engaged our own internal tax professionals in the assessments of the deferred tax asset to support the execution of these audit procedures. ◆ Obtained and inspected independent legal opinions obtained by management in respect of forward looking tax planning strategies. ◆ We considered whether the Group's disclosures met the requirements of International Financial Reporting Standards with specific reference to the Group's ability to generate sufficient taxable profit against which the unused tax losses can be utilised. *Refer to page 34 (Accounting policy), note 4 on page 36 (Significant accounting judgements and estimates) note 6 on page 43 (Significant change in estimates) and note 15 on pages 56 and 57.*
5 Impairment of non-financial assets	
Goodwill amounting to R342m, Intangible assets amounting to R271m and Property plant and equipment amounting to R4 611m, collectively R5 224m as at 30 June 2017, represents 29% of the Group's total assets on the statement of financial position. During the current year the Group recorded an impairment on derecognition of Property, plant and equipment and intangible assets of R278 million. Management's impairment tests are significant to our audit because the assessment process is complex and requires significant management judgement and includes significant estimates. Management used assumptions in respect of future market and economic conditions such as the economic growth and expected inflation rates as well as estimates related to the discount rate applied and the projected contract and revenue margins that will be achieved.	In addition to the work done on the cash flows as noted in the KAM on the Recognition of deferred tax assets, our audit procedures included: ◆ Identifying the Cash-Generating Unit ("CGU") determination in terms of International Financial Reporting Standards. ◆ Assessing and testing the assumptions and methodologies applied, including the weighted average cost of capital (WACC) and other data used by the Group, for example by comparing them to external data, such as expected inflation rates and external market growth expectations. We paid specific attention to forecasts used with respect to future revenues and margins and levels of working capital. ◆ Engaging, as part of our team, a valuation professional to assist us with our assessment of the reasonability of the WACC, expected inflation rates, growth rates and the appropriateness of the models used. ◆ Analysing sensitivities such as the impact on the headroom if the growth rate would be decreased, or the WACC would be increased. We specifically focused on the sensitivity in the available headroom for the cash-generating units, evaluating whether a reasonably possible change in assumptions could cause the carrying amount to exceed its recoverable amount. ◆ Evaluating the adequacy of the financial statement disclosures regarding the assumptions applied and the impairments recognised. *Refer to pages 22, 24 to 26 and 30 and 31 (Accounting policies), note 4 on page 38 (Significant accounting judgements and estimates), note 6 on page 43 (Significant change in estimates) and note 9 (pages 50 to 52), note 10 (pages 52 and 53) and note 12 on page 54.*

Independent auditor's report to the shareholders of Aveng Limited continued

Other information

The directors are responsible for the other information. The other information comprises the Directors' Report, the Audit Committee's Report, Executive Chairman's Report and the Company Secretary's Certificate as required by the Companies Act of South Africa, which we obtained prior to the date of this Auditors' Report and the integrated report. The other information does not include the Consolidated and Separate financial statements and our auditor's report thereon.

Our opinion on the Consolidated and Separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Consolidated and Separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Consolidated and Separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the Consolidated and Separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of Consolidated and Separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated and Separate financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the Consolidated and Separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated and Separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Consolidated and Separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Consolidated and Separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Consolidated and Separate financial statements, including the disclosures, and whether the Consolidated and Separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated and Separate financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the Consolidated and Separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in the Government Gazette Number 39475 dated 4 December 2015, we report that Ernst & Young Inc. has been the auditor of Aveng Limited for 30 years.

The engagement partner on the audit resulting in this independent auditor's report is Allister Jon Carshagen.

Ernst & Young Inc.

Ernst & Young Inc.

Date: 22 September 2017

Director: Allister Jon Carshagen
Chartered Accountant (SA)
Registered auditor

102 Rivonia Road
Sandton

Statement of financial position
as at 30 June 2017

	Notes	2017 Rm	2016 Rm
ASSETS			
Non-current assets			
Goodwill arising on consolidation	9.2 / 11	**342**	342
Intangible assets	9.1 / 12	**271**	325
Property, plant and equipment	9.1 / 10	**4 611**	4 843
Equity-accounted investments	13	**334**	100
Infrastructure investments	14	**265**	177
Deferred taxation	15	**1 290**	1 858
Amounts due from contract customers	17	**756**	1 417
		7 869	9 062
Current assets			
Inventories	19	**2 085**	2 211
Derivative instruments	16	**2**	20
Amounts due from contract customers	17	**3 712**	8 047
Trade and other receivables	18	**1 840**	2 058
Tax receivable	42	**61**	–
Cash and bank balances	20	**1 996**	2 450
		9 696	14 786
Non-current assets held-for-sale	21	**122**	1 484
TOTAL ASSETS		**17 687**	25 332
EQUITY AND LIABILITIES			
Equity			
Share capital and share premium	22	**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	15	**319**	266
Borrowings and other liabilities	23	**1 945**	1 770
Payables other than contract-related	24	**133**	–
Employee-related payables	26	**312**	379
		2 709	2 415
Current liabilities			
Amounts due to contract customers	17	**1 351**	1 322
Borrowings and other liabilities	23	**1 121**	1 214
Payables other than contract-related	24	**21**	–
Employee-related payables	26	**501**	559
Derivative instruments	16	**17**	27
Trade and other payables	25	**5 909**	5 886
Taxation payable	42	**–**	106
		8 920	9 114
Non-current liabilities held-for-sale	21	**–**	247
TOTAL LIABILITIES		**11 629**	11 776
TOTAL EQUITY AND LIABILITIES		**17 687**	25 332

Statement of comprehensive earnings

for the year ended 30 June 2017

	Notes	2017 Rm	2016 Rm
Revenue	30	**23 456**	33 755
Cost of sales	31	**(26 591)**	(31 260)
Gross earnings		**(3 135)**	2 495
Other earnings	32	**206**	591
Operating expenses	33	**(2 305)**	(2 808)
Earnings / (loss) from equity-accounted investments	13	**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	10 / 12	**(278)**	(333)
Profit on sale of property, plant and equipment		**4**	592
(Loss) / earnings before financing transactions		**(5 669)**	405
Finance earnings	34	**198**	211
Interest on convertible bonds	23	**(237)**	(225)
Other finance expenses	35	**(405)**	(327)
(Loss) / earnings before taxation		**(6 113)**	64
Taxation	36	**(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	37	**(1 690,6)**	(25,4)
Loss – diluted	37	**(1 668,2)**	(25,1)
Number of shares (millions)			
In issue	37	**416,7**	416,7
Weighted average	37	**396,8**	397,4
Diluted weighted average	37	**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).

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	**–**	**–**	**–**
Decrease in equity investment	**–**	**–**	**–**
Dividends paid	**–**	**–**	**–**
Total contribution and distributions recognised	**–**	**–**	**–**
Balance at 30 June 2017	**20**	**1 989**	**2 009**
Note	22	22	22

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**

Statement of cash flows

for the year ended 30 June 2017

	Notes	2017 Rm	2016 Rm
Operating activities			
Cash (utilised) / retained from operations	38	**(5 681)**	529
Non-cash and other movements	39	**4 490**	(403)
Cash (utilised) / retained from operations after non-cash movements		**(1 191)**	126
Depreciation	10	**627**	793
Amortisation	12	**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
Movement 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 generated / (utilised) by operating activities		**(124)**	(1 274)
Finance expenses paid	40	**(531)**	(458)
Finance earnings received	41	**215**	214
Taxation paid	42	**(182)**	(316)
Cash outflow from operating activities		**(622)**	(1 834)
Investing activities			
Acquisition of property, plant and equipment – expansion	10	**(135)**	(175)
Acquisition of property, plant and equipment – replacement	10	**(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**	–
Proceeds on disposal of Steeledale assets		**50**	–
Proceeds on disposal of properties		**–**	1 127
Acquisition of intangible assets – expansion	12	**–**	(12)
Acquisition of intangible assets – replacement	12	**(27)**	(4)
Capital expenditure net of proceeds on disposal		**335**	778
Loans advanced to equity-accounted investments net of dividends received		**(27)**	(63)
Increase in equity-accounted investment		**(11)**	–
Net loans advanced / (repaid) to infrastructure investment companies		**9**	(13)
Dividend earnings	32	**8**	7
Cash inflow from investing activities		**314**	709
Operating free cash outflow		**(308)**	(1 125)
Financing activities with equity holders			
Shares repurchased	22	**–**	(23)
Loans advanced / (repaid) by non-controlling interest		**5**	(20)
Dividends paid	43	**(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	20	**1 996**	2 450
Borrowings excluding bank overdrafts		**3 066**	2 984
Net cash position		**(1 070)**	(534)

Accounting policies

for the year ended 30 June 2017

1. PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

Basis of preparation

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

The consolidated financial statements are presented in South African Rand ("ZAR") and all values are rounded to the nearest million ("Rm") except when otherwise indicated. 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 2: New accounting standards and interpretations adopted, changes in accounting policies and other reclassifications.*

Assessment of significance or materiality of amounts disclosed in these consolidated financial statements

The Group presents amounts in these consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"). Only amounts that have a relevant and material impact on the consolidated financial statements 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.

Statement of compliance

The consolidated financial statements of Aveng Limited and its subsidiaries have been prepared on a going concern basis in accordance with the IFRS as issued by the International Accounting Standards Board ("IASB"), the South African Institute of Chartered Accountants ("SAICA") Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncement as issued by the Financial Reporting Standards Council, the Johannesburg Stock Exchange Limited ("JSE") Listings Requirements, and the requirements of the Companies Act 71 of 2008 (as amended) of South Africa.

2. 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 the 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**

Accounting policies continued

for the year ended 30 June 2017

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

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

3. ACCOUNTING POLICIES

3.1 Basis of consolidation

i. Business combination and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects to measure the non-controlling interests in the acquiree at fair value of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in operating expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument is measured at fair value with changes in fair value recognised in profit or loss. If the contingent consideration is not within the scope of *IFRS 9*, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units ("CGU") that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

ii. Common control

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the Group both before and after the combination. The Group accounts for these common control transactions using pooling of interest method. Any difference between the consideration paid and the capital of the acquiree is recognised in retained earnings.

iii. Subsidiaries

The results of any subsidiaries acquired or disposed of during the year are included from the effective dates of acquisition and up to the effective dates of disposal respectively, being the dates on which the Group obtains or ceases to have control. Control is achieved when the Group has power over the investee and is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

iv. Non-controlling interests ("NCI")

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

The Group does not have subsidiaries that have a significant non-controlling interest and accordingly detailed non-controlling interests disclosure is not required in terms of *IFRS 12 Disclosure of Interests in Other Entities* in the current year. Refer to the assessment of significance or materiality of amounts disclosed in these consolidated financial statements.

v. Loss of control

If the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any gain or loss is recognised in earnings or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

3. ACCOUNTING POLICIES continued

3.1 Basis of consolidation continued

vi. Equity-accounted investments

Equity-accounted investments consist of investments in associates and joint ventures.

Associates

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of more than 20% of the voting rights.

Joint arrangements

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about relevant activities require unanimous consent of the parties sharing control. The Group's interests in joint arrangements are either classified as joint operations or joint ventures.

A joint operation is a joint arrangement whereby the Group has rights to the assets and obligations for the liabilities, relating to the joint arrangement. The joint operators have a contractual arrangement that establishes joint control over the economic activities of the entity. The arrangements require unanimous agreement for financial and operating decisions among the joint operators. The Group recognises its interest in a joint operation by recognising its interest in the assets and liabilities of the joint operation as well as its share in the expenses that it incurs and its share of the earnings that it earns from the sale of goods or services by the joint operation.

A joint venture is a joint arrangement whereby the Group has rights to the net assets of the arrangement.

Interests in associates and joint ventures are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the earnings or loss and other comprehensive earnings of the associates and joint ventures, until the date significant influence or control ceases.

When the Group's share of losses in associates or joint ventures equals or exceeds its interest in that entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture. The total carrying amount of associates and joint ventures is evaluated when there is an indication of impairment.

The Group's interests in associates and joint arrangements are considered individually immaterial based on their contribution to the Group and accordingly disclosures are aggregated separately for associates and joint arrangements based on their risk profiles and characteristics in relation to their activities and association to the Group.

vii. Transactions eliminated on consolidation

When the end of the reporting period of a subsidiary, associate or joint arrangement is different to that of the Group, the subsidiary, associate or joint arrangement prepares, for consolidation purposes, additional financial statements as at 30 June 2017. When it is impractical for the subsidiary, associate or joint arrangement to prepare additional financial statements as at 30 June 2017, adjustments are made for the effects of significant transactions that occur between the subsidiary, associate or joint arrangement and the Group's reporting date.

Should a subsidiary, associate or joint arrangement apply accounting policies that are materially different to those adopted by the Group, adjustments are made to the consolidated financial statements to align the accounting policies.

All inter-group transactions and balances are eliminated on consolidation. Unrealised earnings or losses are also eliminated, unless it reflects impairment in the assets so disposed.

Accounting policies continued

for the year ended 30 June 2017

3. ACCOUNTING POLICIES continued

3.2 Foreign currency transactions and balances

Items included in the financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the entity operates (functional currency).

Transactions denominated in foreign currencies are initially translated at the rate of exchange ruling at the transaction date.

Monetary assets and liabilities denominated in foreign currencies are translated at the ZAR rate of exchange ruling at the reporting date. All differences are taken to earnings with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are recognised in other comprehensive earnings and accumulated as a separate component in equity until disposal of the net investment, at which time they are recognised through other comprehensive earnings.

Non-monetary assets and liabilities denominated in foreign currencies are translated at the ZAR rate of exchange ruling on the later of acquisition or revaluation dates. Gains or losses on translation are credited or charged against earnings.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into the presentation currency of the Group ("ZAR") at the rate of exchange ruling at the reporting date. The income and expenses of foreign operations are translated at the average exchange rates for the year. Equity is stated at historical rates.

Foreign currency differences arising on the translation are recognised in other comprehensive earnings and accumulated in the translation reserve, except to the extent that the translation difference is allocated to non-controlling interests.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is reclassified from other comprehensive earnings to earnings.

3.3 Segmental information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The chief operating decision maker, identified as the executive committee, monitors the operating results of the business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating earnings and is measured consistently with operating earnings in the consolidated financial statements.

The Group financing (including finance earnings) and income taxes are allocated to operating segments (refer to *note 8: Segmental information)*.

Revenue and expenses are attributed directly to the segments to which they relate. Segment assets include all operating assets used by a segment, and consist principally of property, plant and equipment, trade and other receivables and amounts due from contract customers. Segment liabilities include all operating liabilities and consist principally of trade and other payables and amounts due to contract customers.

3.4 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the item. Land is not depreciated.

Buildings and other items of property, plant and equipment are depreciated on a straight-line basis over their useful lives to an estimated residual value. Where significant components of an item have different useful lives to the item itself, these parts are depreciated separately if the component's cost is significant in relation to the cost of the remainder of the asset.

The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which the Group incurs either when the item is acquired or as a consequence of having used the item during a particular period.

Subsequent costs are included in the asset's carrying amount or recognised as a component, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the corporation and the cost of the item can be measured reliably. All other repairs and maintenance expenditures are charged to earnings or loss during the reporting period in which they are incurred. If a replacement part is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to be realised from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in earnings or loss in the year in which the item is derecognised.

The asset's residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively, if appropriate, at the end of each reporting period.

3. ACCOUNTING POLICIES continued

3.4 Property, plant and equipment continued

The estimated useful lives of property, plant and equipment for the current and comparative periods are as follows:

Item	Depreciation % / period
Buildings	2%
Leasehold improvements property	Shorter of lease period and asset's useful life
Finance leases property	Shorter of lease period and asset's useful life
Plant and machinery	5% to 33%
Furniture and fixtures	10% to 33%
Motor vehicles	10% to 33%
Office equipment	10% to 33%

3.5 Intangible assets

Recognition and measurement

Intangible asset	Accounting treatment
Trademarks and brand names	Following initial recognition at cost, trademarks and brand names are measured at cost less accumulated amortisation and accumulated impairment losses. Trademarks and brand names with indefinite useful lives are not amortised and are measured at cost less accumulated impairment losses. Internally developed trademark expenses are written off as and when incurred.
Computer software	Following initial recognition, computer software is measured at cost less accumulated amortisation and accumulated impairment. Internally developed computer software expenses are only capitalised when such costs are clearly associated with the development and production of identifiable and unique software products controlled by the Group, and will probably generate economic benefits exceeding one year.
Other intangible assets	Other intangible assets include customer lists and know-how acquired through business combinations. Following initial recognition, such assets are measured at cost less accumulated amortisation and accumulated impairment.

Amortisation

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using a straight-line method over their estimated useful lives, and is generally recognised in earnings or loss.

The estimated useful lives for current and comparative periods are as follows:

Item	Amortisation rate
Brand names with definite useful lives	5% – 10%
Know-how	20%
Customer lists	5% – 20%
Computer software	10% – 33%

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

An intangible asset is derecognised upon disposal or when no future economic benefits are expected to be realised from the continued use of the asset. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in earnings when the asset is derecognised.

Accounting policies continued

for the year ended 30 June 2017

3. ACCOUNTING POLICIES continued

3.6 Impairment of property, plant and equipment, intangible assets and goodwill arising on consolidation

The Group assesses, at each reporting date, whether there is an indication that a non-financial asset (other than inventories and deferred tax assets) may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses are recognised in the statement of comprehensive earnings in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised.

The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive earnings unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

3.7 Inventories

Inventories comprise raw materials, consumable stores, work-in-progress, and finished goods. Inventories are valued at the lower of cost and net realisable value generally determined on the first-in first-out ("FIFO") basis, standard costing and weighted average in respect of certain stock categories. The cost of manufactured goods and work-in-progress, in addition to direct materials and labour, include a proportion of production overheads based on normal operating capacity and the appropriate stage of completion.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and the estimated costs necessary to make the sale. Write-downs to net realisable value and inventory losses are expensed in the period in which the write-downs or losses occur.

3.8 Share capital and share premium

Treasury shares

Treasury shares comprise shares in Aveng Limited held by the Aveng Limited Share Purchase Trust and by Aveng Management Company Proprietary Limited, and shares in terms of the forfeitable share plan. The amount of consideration paid for the treasury shares is recognised as a deduction from equity and both issued capital and weighted average number of shares are reduced by the number of treasury shares. Dividends received on treasury shares are eliminated on consolidation. Earnings are not recognised on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Black economic empowerment ("BEE") equity-settled share options

No expense is recognised in earnings for awards made in terms of the BEE transaction where these equity options were granted and had vested before the date that *IFRS 2 Share-based payments* was first applicable. In these cases, the Group considers the number of shares to be issued to the BEE partners as contingently issuable shares.

There were no shares that are considered to be contingently issuable for the reporting period.

3. ACCOUNTING POLICIES continued

3.9 Share-based payments

The Group operates a share incentive plan for the granting of shares and / or share options to executives and senior employees as consideration for services rendered. Shares and / or share options are offered to executives and senior employees at the market price, upon recommendation by the remuneration committee. Shares and / or share options awarded to executives and senior employees are awarded over a period of three to four years. The shares and / or share options then vest within one year from the date awarded. Thus the shares and / or share options vest over a period of five years. Shares or share options not exercised within 10 years are forfeited.

Equity-settled transactions

The cost of equity-settled transactions with employees is measured with reference to the fair value at the date on which they are granted. In valuing equity-settled transactions, no account is taken of performance conditions, other than conditions linked to the market value of the Company's shares. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate as to the number of equity instruments that will ultimately vest. The earnings charge or credit for a period represents the movement in cumulative expense recognised at the beginning and at the end of each reporting period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition. Provided that all other performance conditions are satisfied, these awards are treated as vesting irrespective of whether or not the market condition is satisfied. Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified.

In addition, an expense is recognised for any modification, which increases the consolidated total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation. Any expense not yet recognised for the award is immediately recognised. In the event that a new award is substituted for the cancelled award, and designated as a replacement award, the cancelled and new awards are treated as if they were a modification to the original award. The dilutive effect of outstanding options is included in the computation of diluted earnings per share.

Cash-settled transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date by means of an adjusted binomial option pricing model which takes into account the terms and conditions upon which the instruments were granted. This fair value is expensed over the vesting period with recognition of a corresponding liability. This liability is remeasured at each reporting date up to and including the settlement date with changes in fair value recognised in earnings.

Subsidiaries

Share-based payments that are classified as equity or cash-settled at the Group level are classified as follows in the subsidiary level:

- Equity-settled, where the receiving subsidiary has no obligation to settle the transaction;
- Equity-settled, where the settling subsidiary has the obligation to settle in its own equity instruments;
- Cash-settled, where the settling subsidiary has the obligation to settle in cash or other assets, including equity instruments of another Group entity (where relevant).

3.10 Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of past events for which it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Where the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Accounting policies continued

for the year ended 30 June 2017

3. ACCOUNTING POLICIES continued

3.11 Employee benefits

Short-term employee benefits

All short-term benefits are charged as an expense in the period in which the related service is rendered by employees. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and this amount can be estimated reliably. The liability under short-term benefits is accounted for as the undiscounted amount expected to be paid in exchange for the services received.

Post-retirement benefits

The Group has a number of retirement benefit plans for its eligible employees. These plans comprise both defined contribution and a closed defined benefit plan. South African funds are governed by the Pension Funds Act, 1956 as amended. Other funds are governed by the respective legislation of the country concerned.

The overall expected rate of return on assets is determined based on market expectations prevailing on that date, applicable to the period over which the obligation is to be settled.

The risks pertaining to the defined contribution plans do not lie with the Group regarding the sufficiency of the plan assets or returns on these assets. With regards to the closed defined benefit plan, the pensioner liabilities are fully funded and accordingly the Group has no foreseen future funding obligation. As such, the above information has been provided for information purposes only.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense in the reporting period to which they relate.

Defined benefit plans

In respect of the Grinaker Group Pension Fund, pensioner liabilities are fully outsourced to Momentum Group Limited. The surplus member apportionment account is defined benefit in nature and fully funded and no further funding is required from the employer. However, should Momentum Group be unable to perform in terms of an Annuity Purchase Agreement, the obligation to fund the pensioner liabilities may revert to the Group.

The Group has assessed the likelihood of Momentum being unable to perform in terms of an annuity purchase agreement to be remote.

Other long-term employee benefits

Other long-term employee benefits include items such as the Group's long-term disability benefits as well as the portion of the Group's leave pay benefits not expected to be settled wholly within 12 months after the annual reporting period in which the employees render the related service. The Group's portion of leave pay benefits not expected to be settled wholly within 12 months after the annual reporting period are classified as non-current and are discounted using the Group's weighted average cost of capital rate with any remeasurements being recognised directly in earnings.

Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

Reimbursive rights

A reimbursive asset is only recognised when it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation. The Group recognises its right to reimbursement as a separate asset. The asset is measured at fair value with any changes in the fair value of its right to reimbursement being recognised in the same way as for changes in the fair value of plan assets.

3. ACCOUNTING POLICIES continued

3.12 Revenue

Revenue is recognised only when it is probable that the economic benefits associated with a transaction will flow to the Group and the amount of revenue can be measured reliably. Revenue is measured at the fair value of consideration received or receivable, excluding discounts, rebates, and Value Added Taxation.

Construction contracts

Revenue from construction contracts is recognised, when the outcome of the construction contract can be measured reliably, by reference to the percentage of completion of the contract at the reporting date. The percentage of completion is measured by the proportion that the costs incurred to date bear to the estimated total costs of the contract, surveys of work performed, completion of a physical proportion of the contract work, and management's judgement of the contract progress and outstanding risks. Anticipated losses to completion are immediately recognised as an expense in contract costs.

When the outcome of a construction contract cannot be estimated reliably (principally during early stages of a contract), contract revenue is recognised only to the extent of costs incurred that are expected to be recoverable.

Where contract costs incurred to date plus recognised earnings, less recognised losses exceed progress billings, the surplus is reflected as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits, less recognised losses, the surplus is reflected as amounts due to customers for contract work.

Amounts received before the related work is performed are included as a liability in the consolidated statement of financial position, as amounts received in advance under the amounts due from / (to) contract customers. Amounts billed for work performed but not collected from customers are included as contract receivables. Variations in contract work, claims and incentive payments are included as part of contract revenue as follows:

Claims

Claims are subject to a high level of uncertainty, and revenue related to claims is only recognised when negotiations have reached an advanced stage such that it is probable that the customer will accept the claim and the amount that is probable can be measured reliably.

Variations

Revenue is recognised when it can be reliably measured and it is probable that the variation will be approved by the customer.

Incentive payments

Revenue is recognised when the contract is sufficiently advanced that it is probable that the specified performance standard will be met or exceeded and the amount of incentive payment can be measured reliably.

Combining and segmenting construction contracts

The Group's contracts are typically negotiated for the construction of a single asset or a group of assets which are closely inter-related or inter-dependent in terms of their design, technology and function. In certain circumstances, the percentage of completion method is applied to the separately identifiable components of a single contract or to a group of contracts together in order to reflect the substance of a contract or group of contracts.

Assets covered by a single contract are treated separately when:

- separate proposals have been submitted for each asset;
- each asset has been subject to separate negotiation and the Group and customer have been able to accept or reject that part of the contract relating to each asset; and
- the costs and revenues of each asset can be identified.

A group of contracts is treated as a single construction contract when:

- the group of contracts is negotiated as a single package;
- the contracts are so closely inter-related that they are, in effect, part of a single project with an overall positive margin; and
- the contracts are performed concurrently or in a continuous sequence.

Accounting policies continued

for the year ended 30 June 2017

3. ACCOUNTING POLICIES continued

3.12 Revenue continued

Construction contracts continued

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing managerial involvement with the goods, and the amount of revenue can be measured reliably.

The timing of the transfer of risks and rewards varies depending on the individual terms of the sales contract.

Rendering of services

Revenue from the rendering of services is recognised on a percentage of completion basis over the period for which the services are rendered.

Transport revenue

Transport revenue is recognised when the goods have been delivered to the customer.

3.13 Interest earnings

Interest is recognised on a time proportion basis that takes into account the effective yield on the asset. An appropriate accrual is made at each reporting date.

3.14 Other earnings

Dividends received are included in earnings or loss on the date the Group's right to receive payment is established, which is determined to be when the dividend has been appropriately authorised and is no longer at the entity declaring the dividend's discretion.

3.15 Fair value of assets and liabilities

Financial and non-financial assets

The Group measures certain financial instruments, including infrastructure investments, foreign exchange contracts at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

When measuring the fair value of an asset or liability, the Group uses observable market data as far as possible. Each method of determining fair value can be analysed into the following categories:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to their fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same; and discounted cash flow analysis or other valuation models.

3. ACCOUNTING POLICIES continued

3.16 Financial instruments (based on early adopted classification model of *IFRS 9 (2010)*)

3.16.1 Financial assets

Initial recognition and measurement

The Group initially recognises financial assets when the Group becomes a party to the contractual provisions of the instrument.

Financial assets are initially measured at fair value plus in the case of assets not measured at fair value through profit or loss, directly attributable transaction costs. Subsequently financial assets, excluding derivatives, are classified as measured at amortised cost or fair value, depending on the Group's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. Derivatives are subsequently measured at fair value through profit or loss. Changes in the fair value of derivatives used to economically hedge the Group's foreign exchange exposure are recognised in *other earnings* in the earnings or loss component of the statement of comprehensive earnings.

A financial asset qualifies for amortised cost, using the effective interest method net of any impairment loss if it meets both of the following conditions:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If a financial asset does not meet both of these conditions, it is measured at fair value.

The assessment of business model is made at portfolio level as this reflects best the way the business is managed and information is provided to management.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

The Group's financial assets are classified as trade and other receivables, amounts due from contract customers, infrastructure investments and cash and bank balances.

Financial investments / infrastructure investments

The Group holds investments in the equity interest of a number of non-listed entities, which are subsequently measured at fair value through profit or loss.

Trade and other receivables

Trade and other receivables are subsequently measured at amortised cost.

Amounts due from contract customers

Amounts due from contract customers are carried at cost plus margin recognised, less billings and recognised losses at the reporting date in accordance with the revenue recognition policy in *section 3.12.*

Contract receivables and contract retentions are initially recognised at cost plus margin, which approximates fair value, and are subsequently measured at amortised cost. Contract receivables and retentions comprise amounts due in respect of progress billings certified by the client or consultant at the reporting date for which payment has not been received and amounts held as retentions on certified work at the reporting date.

Contract costs include costs that are attributable directly to the contract and costs that are attributable to contract activity. Costs that relate directly to a specific contract comprise: site labour costs (including site supervision); costs of materials used in construction; depreciation of equipment used on the contract; costs of design, technical assistance, and any other costs which are specifically chargeable to the customer in terms of the contract.

Contract costs incurred that relate to future activity are recognised as an asset to the extent that it is probable it will be recovered. Such costs represent amounts due from contract customers.

Accounting policies continued

for the year ended 30 June 2017

3. ACCOUNTING POLICIES continued

3.16 Financial instruments (based on early adopted classification model of *IFRS 9 (2010)*) continued

3.16.1 Financial assets continued

Cash and bank balances

Cash and bank balances comprise cash on hand and bank balances that are subsequently measured at amortised cost. Cash held in joint arrangements are available for use by the Group with the approval of the joint arrangement partners. Bank overdrafts are offset against positive bank balances where a legally enforceable right of offset exists and there is an intention to settle the overdraft and realise the net cash. For the purposes of the statement of cash flows, cash and bank balances consist of cash and bank balances defined above net of outstanding bank overdrafts.

Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred "loss event"), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Financial assets not carried at fair value through profit or loss, including an interest in an equity-accounted investee, are assessed at each reporting date to determine whether there is objective evidence of impairment. Accordingly, this accounting policy relates to *note 17: Amounts due from contract customers, note 18: Trade and other receivables* and *note 19: Cash and bank balances.*

Objective evidence that financial assets are impaired includes:

- default or delinquency by a debtor in interest or principal payments;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy or other financial reorganisation;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security; or
- observable data indicating that there is a measurable decrease in expected cash flows from a group of financial assets such as changes in arrears or economic conditions that correlate with defaults.

Derecognition

A financial asset is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability.

The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

3. ACCOUNTING POLICIES continued

3.16 Financial instruments (based on early adopted classification model of *IFRS 9 (2010)*) continued

3.16.2 Financial liabilities

Initial recognition and measurement

The Group initially recognises financial liabilities when the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities are classified as measured at amortised cost or fair value, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and in the case of loans and borrowings and other liabilities, less directly attributable transaction costs. The Group's financial liabilities include trade and other payables, borrowings and other liabilities, bank overdrafts, employee-related payables, amounts due to contract customers and derivatives that are liabilities.

The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss, except those financial liabilities that contain embedded derivatives that significantly modify cash flows that would otherwise be required under the contract.

Amounts due to contract customers

Where progress billings exceed the aggregate of costs plus margin less losses, the net amounts are reflected as a liability and is carried at amortised cost.

Borrowings and other liabilities

Borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in earnings when the liabilities are derecognised as well as through the amortisation process.

Trade and other payables

Trade and other payables are subsequently measured at amortised cost using the effective interest method.

Bank overdraft

Bank overdrafts are subsequently measured at amortised cost using the effective interest method.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Refer to *note 50: Offsetting financial assets and financial liabilities* for further details regarding the offsetting of financial instruments.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in earnings.

3.16.3 Derivative instruments and hedge accounting

Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the statement of earnings or loss.

The Group uses forward exchange contracts as a hedge of its exposure to foreign exchange risk on inter-company loans that forms part of its net investments in foreign operations. Refer to *note 16: Derivative instruments* for more details.

The repayment or settlement of an inter-company loan accounted for as part of the net investment in a foreign operation is not considered a partial disposal of the foreign operations. The cumulative foreign exchange gains or losses recognised in other comprehensive income remains separately in equity until the disposal of the foreign operation and are not recycled from other comprehensive income to the earnings or loss component of the statement of comprehensive income.

Fair value through profit and loss

When a derivative instrument is entered into and designated as a fair value hedge, all fair value gains or losses are recognised in the statement of earnings or loss. Changes in the fair value of a hedging instrument that is highly effective and is designated and qualifies as a fair value hedge, are recognised in the statement of earnings or loss with the changes in the fair value of the related hedged item.

Accounting policies continued

for the year ended 30 June 2017

3. ACCOUNTING POLICIES continued

3.17 Tax

Current taxation

Current taxation comprises the expected taxation payable and receivable on the taxable earnings for the year and any adjustment to taxation payable or receivable in respect of previous years. It is measured using taxation rates that are enacted or substantively enacted at reporting date.

Current taxation for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current or prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current taxation is charged to earnings except to the extent that it relates to a transaction that is recognised outside earnings or loss. In this case the current taxation items are recognised in correlation to the underlying transaction either in other comprehensive earnings or directly in equity.

Deferred taxation

Deferred taxation is recognised in respect of all temporary differences at the reporting date. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their taxation base.

Deferred taxation is not recognised for:

- Taxable temporary differences that arise from the initial recognition of goodwill.
- Temporary differences on the initial recognition of an asset or liability in a transaction that is not a business combination and affects neither the accounting profits nor taxable income.
- Temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred taxation assets are recognised for all deductible temporary differences, carry forward of unused taxation credits and unused taxation losses, to the extent that it is probable that taxable income will be available against which they can be used.

The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using taxation rates that are expected to apply to the year when the asset is realised or the liability is settled based on enacted or substantively enacted taxation rates at the reporting date.

Deferred taxation is charged to earnings or loss except to the extent that it relates to a transaction that is recognised outside earnings or loss. In this case the deferred taxation items are recognised in correlation to the underlying transaction either in other comprehensive earnings or directly in equity.

The effect on deferred taxation of any changes in taxation rates is recognised in earnings, except to the extent that it relates to items previously recognised in other comprehensive earnings or credited directly to equity. The carrying amount of deferred taxation assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that the related taxation benefit will be realised. Unrecognised deferred taxation assets are reassessed at each reporting date and are recognised to the extent that it has become probable that the future taxable income will allow the deferred taxation asset to be recovered.

Deferred taxation assets and deferred taxation liabilities are offset, if a legally enforceable right exists to set off current income taxation assets against current taxation liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Withholding tax

A dividend withholding tax is withheld on behalf of the taxation authority on dividend distributions.

Other taxes

Revenues, expenses and assets are recognised net of Value Added Tax except for:

- Where the Value Added Tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the Value Added Tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of Value Added Tax included.

The net amount of Value Added Tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

3.18 Leases

Group as a lessee

Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether the arrangement is or contains a lease.

At inception or on reassessment of an arrangement that contains a lease, the Group separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate payments reliably, then the asset and liability are recognised at an amount equal to the fair value of the underlying asset; subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Group's incremental borrowing rate.

3. ACCOUNTING POLICIES continued

3.18 Leases continued

Group as a lessee continued

Leased assets

Assets held by the Group under leases that transfer to the Group substantially all the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Group's statement of financial position.

Lease payments

Payments made under operating leases are recognised in earnings or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Sale and leaseback

Where a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortised over the lease term.

Where a sale and leaseback transaction results in an operating lease, the gain or loss on sale is recognised in earnings or loss immediately if (i) the Group does not maintain or maintains only minor continuing involvement in the asset other than the required lease payments, and (ii) the transaction occurs at fair value. If the sales price is below fair value, the shortfall is recognised in earnings immediately except where the loss is compensated for by future lease payments at below market price, in which case it is deferred and amortised in proportion to the lease payments over the period for which the assets are expected to be used. If the sale price is above fair value, the excess over fair value is deferred and amortised over the period the assets are expected to be used.

Group as a lessor

Leases whereby the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rental income is recognised as revenue during the period in which it is earned.

3.19 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

3.20 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and its existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group, or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

If the likelihood of an outflow is remote, the possible obligation is neither a provision nor a contingent liability and no disclosure is made.

Contract performance guarantees issued by the parent company on behalf of the Group companies are calculated based on the probability of draw down.

3.21 Non-current assets held-for-sale

Non-current assets and disposal groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as having been met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Loans (from) / to Group companies that have been classified as held-for-sale are eliminated on consolidation. Non-current assets (and disposal groups) classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

3.22 Investments in subsidiaries

Investments in Group companies, which consist of subsidiaries, joint ventures and associates in the separate financial statements, are stated at cost less amounts written off where there has been an impairment.

Accounting policies continued

for the year ended 30 June 2017

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

4.1 Judgements and estimation assumptions

In the process of applying the Group's accounting policies, the Group has made the judgements relating to certain items recognised, which have the most significant effect on the amounts recognised in the consolidated financial statements. The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

4.1.1 Useful lives of property, plant and equipment

The Group reviews the estimated useful lives of property, plant and equipment at the end of each reporting period.

Refer to *note 10: Property, plant and equipment* for further detail.

4.1.2 Intangible assets

The Group reviews the estimated useful lives of intangible assets at the end of each reporting period.

Refer to *note 12: Intangible assets* for further detail.

4.1.3 Equity-accounted investments

Equity-accounted entities are entities in which the Group holds less than 20% of the voting power, but the Group has determined that it has significant influence in entities where it holds less than 20% of the voting power. This includes Specialised Road Technologies Proprietary Limited and RPP Developments Proprietary Limited. The Group's significant influence is due to the Group having a representation on the Board of directors in each of these entities and the Group's participation in decisions over the relevant activities of the entities.

Refer to *note 13: Equity-accounted investments* for further detail.

Equity-accounted investments that are managed, reported and evaluated on a fair value basis are classified as infrastructure investments held at fair value.

4.1.4 Deferred taxation

Deferred taxation assets are recognised for all unused taxation losses to the extent that it is probable that taxable earnings will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred taxation assets that can be recognised, based upon the likely timing and level of future taxable earnings. If the deferred taxation assets and the deferred taxation liability relate to income taxation in the same jurisdiction, and the law allows net settlement, they have been offset in the statement of financial position.

Refer to *note 15: Deferred taxation* for further detail.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES continued

4.1 Judgements and estimation assumptions continued

4.1.5 Amounts due from / (to) contract customers

The Group estimates the risk associated with the amounts due from contract customers in order to classify these assets according to their maturity profile.

Refer to n*ote 17: Amounts due from / (to) contract customers* for further detail.

4.1.6 Trade and other receivables

Allowance for doubtful debts

The Group estimates the level of allowance required for doubtful debts on an ongoing basis based on historical experience as well as other specific relevant factors.

Refer to *note 18: Trade and other receivables* for further detail.

4.1.7 Inventory

Allowance for obsolete inventory

The Group estimates the level of allowance required for obsolete inventory on an ongoing basis based on historical experience as well as other specific relevant factors.

Refer to *note 19: Inventories* for further detail.

4.1.8 Share-based payments

Equity-settled

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant.

Cash-settled

The benefit payable to an employee on exercise date under both the Share Appreciation Right and Option plans is calculated as the higher of the difference between the spot share price at the time of exercise and the strike (or grant) price, and zero. The Group's share option methodology utilises the binomial tree / lattice (based on risk-neutral principles). Sub-optimal exercise multiples are incorporated so as to include the possibility of early exercise. In addition, the following factors are taken into account as inputs in the option pricing methodology:

- Expected volatility of the share price;
- Expected dividend on the share during the life of the option.

The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in *note 28: Share-based payments.*

4.1.9 Provisions

In determining the fair value of the provisions, assumptions and estimates are made in relation to the discount rate and expected costs to settle. The hypothetical incremental borrowing rate for the Group was used as the discount rate. The rate was determined as follows:

Risk free rate

The risk free rate was determined by obtaining a zero coupon swap curve over 20 years, as the bond market in South Africa is not sufficiently liquid and deep to use the bond rate as a proxy for the risk-free rate. The five-year zero coupon risk-free rate is 7,60% per annum.

Hypothetical credit spread

The Group specific hypothetical credit spread was determined based on market risk indicators specific to the Group. The five-year credit spread was determined as 163 basis points. The five-year hypothetical incremental borrowing rate was determined as 10,98% per annum.

Refer to *note 24: Payables other than contract-related* and *note 26: Employee-related payables* for further detail.

Accounting policies continued

for the year ended 30 June 2017

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES continued

4.1 Judgements and estimation assumptions continued

4.1.10 Fair value of assets and liabilities

Financial assets and non-financial assets

The fair values of the infrastructure investments and derivative instruments recognised in the statement of financial position are measured using the discounted cash flow approach. The inputs to these models are sourced from independently audited investment specific project finance models and from observable markets, where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as forecast revenues, operating costs, capital expenditure, risk adjusted discount rates and other relevant financial performance measures.

Refer to *note 49: Fair value of assets and liabilities* for the detailed assumptions applied.

Financial liabilities

The fair value of the embedded conversion option of the convertible bond recognised in the statement of financial position during the financial year (but transferred to the equity reserve by year-end) was measured using a binomial option pricing model. The inputs to this model are independently sourced from observable markets, where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as the risk free rate, share price and volatility.

Refer to *note 23.2: Convertible bonds* for further details.

4.1.11 Impairment of property, plant and equipment, intangible assets and goodwill arising on consolidation

The Group assesses the recoverable amount of any goodwill arising on consolidation and indefinite useful life intangible assets annually or when indicators of potential impairment are identified as allocated to the CGU of the Group.

Impairment exists when the carrying amount of a CGU exceeds its recoverable amount, which is the higher of its fair value less costs to dispose of and its value-in-use. The fair value less costs of disposal calculation is based on available data (if applicable) from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value-in-use calculation is based on a discounted cash flow model. The cash flows are derived from future budgets and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU.

The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model, the expected future cash inflows and the growth rates used for extrapolation and terminal value purposes. The key assumptions used to determine the recoverable amount for the different CGUs, including sensitivities, are disclosed and further explained in *note 9.2: Impairment of goodwill arising on consolidation.*

4.1.12 Revenue recognition

The Group uses the percentage of completion method in accounting for its construction contracts.

Judgements made in the application of the accounting policies for contracting revenue and profit and loss recognition include:

- the determination of stage of completion;
- estimation of total contract revenue and total contract costs;
- assessment of the amount the client will pay for contract variations; and
- estimation of project production rates and programme through to completion.

The construction contracts undertaken by the Group may require it to perform extra or change order work, and this can result in negotiations over the extent to which the work is outside the scope of the original contract or the price for the extra work.

Given the complexity of many of the contracts undertaken by the Group, the knowledge and experience of the Group's project managers, engineers, and executive management is used in assessing the status of negotiations with the customer, the reliability with which the estimated recoverable amounts can be measured, the financial risks pertained to individual projects and the associated judgements and estimates employed. Cost and revenue estimates and judgements are reviewed and updated monthly, and more frequently as determined by events or circumstances. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately as an expense.

In addition, many contracts specify the completions schedule requirements and allow liquidated damages to be charged in the event of failure to achieve that schedule; on these contracts, this could result in the Group incurring liquidated damages.

Material changes in one or more of these judgements and / or estimates, whilst not anticipated, would significantly affect the profitability of individual contracts and the Group's overall results. The impact of a change in judgements and / or estimates has and will be influenced by the size and complexity of individual contracts within the portfolio at any point in time.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES continued

4.1 Judgements and estimation assumptions continued

4.1.13 Leases and sale and leaseback transactions

The classification of leases as finance leases or operating leases requires judgement about the fair value of the leased asset, the split of the fair value between land and buildings, the economic life of the asset, whether or not to include renewal options in the lease term and the appropriate discount rate to calculate the present value of the minimum lease payments.

4.1.14 Contingent liabilities

Parent company guarantees issued in the ordinary course of business are at inception accounted for as contingent liabilities in accordance with *IAS 37* and disclosed accordingly. Subsequent to the issuance of the guarantee, and a Completion Certificate for the related work, the probability of the related obligation is determined to be remote (and therefore not disclosed in the financial statements unless there are other reasons that make the obligation probability possible).

Where a claim on the guarantee has been made by the respective client, the probability of the obligation is assessed in detail by management.

Where there is a possibility of reimbursement on a parent company guarantee, this reimbursive right is required to be disclosed (as a contingent asset) separate to the related obligation, only if virtually certain.

Reimbursements from cross indemnities may not be disclosed in the financial statements unless a claim is made by a client on the corresponding obligation, and the reimbursement is considered probable.

4.1.15 Loss making and onerous contracts

In determining whether a contract is loss making or onerous, management applies its professional judgement to assess the facts and circumstances specific to the relevant contract. The assessments are performed on a contract-by-contract basis. The following factors are taken into account: future estimated revenues (including claims and variations, as disclosed in *note 3.12: Revenue*); the stage of completion of the contract; the nature and relationship with the customer; expected inflation; the terms of the contract and the Group's experience in that industry.

Accounting policies continued

for the year ended 30 June 2017

5. STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE

The Group has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the Group's accounting periods beginning on or after 1 July 2017.

Standard	Description	Matter	Expected impact
IFRS 15	Revenue from Contracts with Customers**	*IFRS 15* replaces all existing revenue requirements in *IFRS (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers* and *SIC 31 Revenue – Barter Transactions Involving Advertising Services)* and applies to all revenue arising from contracts with customers.	The Group and Company anticipate minimal changes in the accounting under this new standard for the projects that are currently booked. Processes and procedures will need to be updated to ensure that the correct method is used and documented in arriving at the treatment under *IFRS 15*. Possible impact for loss-making contracts due to these contracts being within the scope of *IAS 37* and the onerous contract requirements are used in the assessment, rather than the previous *IAS 11* requirements. Disclosures relating to revenue are expected to be expanded significantly on the adoption of *IFRS 15*. Phase 1 which was the initial high-level assessment of a sample of contracts has been completed. The following phase includes practical workshops throughout the Group to assess the remaining contracts, as well as the processes of accounting for such contracts to develop an implementation plan, including the tax and legal considerations. Following the practical workshops, an analysis of the findings will be done and the result of that will lead to the consolidation and new disclosures for implementation.
IFRS 10 and *IAS 28* (amendment)	Sale or Contribution of Assets between an Investor and its Associates or Joint Venture	The amendment addresses the conflict between *IFRS 10* and *IAS 28* in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture.	No impact on the Group's consolidated financial statements is likely as it is not the Group's policy to sell or contribute its subsidiaries to an associate or joint venture.
IAS 7 (amendment)	Disclosure Initiative	The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.	The Group is in the process of assessing the impact of the disclosures in the consolidated financial statements.

*** IFRS 15 Revenue from Contracts with Customers replaces IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and will be effective for annual periods beginning on or after 1 January 2018. It applies to all entities that enter into contracts to provide goods or services to their customers, unless the contracts are in the scope of other IFRS, such as IAS 17 Leases. The standard also provides a model for the measurement and recognition of gains and losses on the sale of certain non-financial assets, such as property or equipment. Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset; and liability account balances between periods and key judgements and estimates.*

5. STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE continued

Standard	Description	Matter	Expected impact
IFRS 9 (2014)	Financial Instruments*	Determines the measurement and presentation of financial instruments depending on their contractual cash flows and business model under which they are held. The impairment requirements are based on an expected credit loss ("ECL") model that replaces the *IAS 39* incurred loss model. The new hedging model provides for more economic hedging strategies meeting the requirements for hedge accounting.	The Group is expected to be impacted with the ECL model for trade receivables and amounts due from contract customers. As at 30 June the impact of the ECL model on the Group and Company's financial statements is currently not reasonably estimated, due to Group or Company currently in the process to assess the detailed impact. Extensive additional disclosures will be required, specifically relating to credit risk and expected credit losses. *IFRS 9* (2010) which relates to classification and measurement has been early adopted for the year ending 30 June 2015. *IFRS 9* (2014) which relates to impairment requirements and hedge accounting is effective for the 30 June 2019 financial year-end. The Group is in the process of performing a more detailed assessment of the impact of these changes and the related disclosures.
IAS 12 (amendment)	Recognition of Deferred Tax Assets for Unrealised Losses	The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explains in which circumstances taxable profit may include the recovery of some assets for more than their carrying amount.	The Group is in the process of assessing the impact on the consolidated financial statements.
IFRIC Interpretation 22 (amendment)	Foreign Currency Transactions and Advance Consideration	The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration.	The Group is in the process of assessing the impact of the disclosures in the consolidated financial statements.

** IFRS 9 (2014) – as issued in July 2014, reflects the final version of the IASB's work on the replacement of IAS 39 and will be effective for annual periods beginning on or after 1 January 2018. Early application is permitted and the Group has early adopted IFRS 9 (2010) (the requirements relating to classification and measurement).*

Accounting policies continued

for the year ended 30 June 2017

5. STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE continued

Standard	Description	Matter	Expected impact
IFRS 16	Leases***	*IFRS 16* requires lessees to account for all leases under a single statement of financial position model in a similar way to finance leases under *IAS 17.*	The largest impact to the Group and Company under this standard will be related to the sale and operating leaseback of properties implemented during the previous financial year, as well as a number of operating leases for equipment and vehicles. Assets and debt would increase while the expense related to these properties would be shown as depreciation and added back for EBITDA. Finance expense relating to the debt is expected to increase. No significant impact is expected for the Group's finance leases. The sale and leaseback will be the biggest component, however, all leases are included in the assessment process. The Group is in the process of identifying and assessing all operating leases, this will be done together with the process for the two standards detailed above to assess any interaction between the new standards. Early application is permitted, but not before an entity applies *IFRS 15*.
IFRS 2 (amendment)	Classification and Measurement of Share-based Payment Transactions	The amendments address three main areas: ◆ The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction ◆ The classification of a share-based payment transaction with net settlement features for withholding tax obligations ◆ The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.	The Group is in the process of assessing the impact on the consolidated financial statements.

Annual Improvements 2014 – 2016 cycle. It is expected that the annual improvements will not significantly change the Group's consolidated financial statements, the effects of which are still being assessed:

IFRS 12 Disclosure of Interest in Other Entities – Clarification of the scope of the disclosure requirement in *IFRS 12*

IAS 28 Investment in Associates and Joint Ventures – Clarification on measuring the investees at fair value through profit or loss is an investment-by-investment choice

*** *IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessor accounting is substantially unchanged from today's accounting under IAS 17. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective transition approach. The standard's transition provisions permit certain reliefs. Early application is permitted, but not before an entity applies IFRS 15.*

6. SIGNIFICANT CHANGE IN ESTIMATES

The Group continuously makes estimates and assumptions, particularly with regards 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, 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, the Board has decided to write-down long-outstanding claims amounting to R2,7 billion. This has resulted in reduced revenue for the period. The write-down of the uncertified 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 said claims losses:

- 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 increasingly 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.

Notes to the consolidated financial statements continued

for the year ended 30 June 2017

7. GOING CONCERN AND LIQUIDITY

As detailed in *note 1* and *note 51* 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 write-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 includes:

- 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 renegotiated 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 believes that these facilities will provide adequate financial resources to enable the Group to meet its obligations over the next 12 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.

8. 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:

1. Construction and Engineering

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 and Oil & Gas, real estate and renewable energy concessions and investments.

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 Environs, Southeast Asia and Middle East.

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

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.

3. Manufacturing and Processing

This segment comprises Aveng Manufacturing and Aveng Steel.

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

Aveng Manufacturing's 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).

4. Other and Eliminations

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

Notes to the consolidated financial statements continued

for the year ended 30 June 2017

8. 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	(46,9)
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 consolidated financial statements continued

for the year ended 30 June 2017

8. 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	**–**	–	–
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 consolidated financial statements continued

for the year ended 30 June 2017

8. 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 expenditure Rm	2016 Capital expenditure 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

9. IMPAIRMENTS

The Group performed its annual impairment test at 30 June 2017. An assessment of qualitative factors for each CGU was undertaken to identify if any indications of impairment were present, mainly due to weak financial performance (losses and cash outflows) and worsening macro-economic factors that prevailed during the period.

The Group considers the relationship between its market capitalisation and its carrying amount, among other factors, when reviewing for indicators of impairment. As at 30 June 2017, the market capitalisation of the Group was below the carrying amount of its equity, resulting in the identification of a potential indicator of impairment of assets of the Group. The overall decline in construction and development activities, as well as the ongoing economic uncertainty, have led to a decreased demand in the *Mining* operating segment and Manufacturing and Processing operating segment.

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* segment (R52 million charge) and *Other and Eliminations* segment (R1 million charge) during the period ended 30 June 2017.

During the period ended 30 June 2016, an 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.

Refer to *note 10: Property, plant and equipment* and *note 12: Intangible assets* for further details.

Determination of recoverable amount

Management has determined the recoverable amount of the Group to be value-in-use.

The value-in-use was determined based on management's past experience and best estimate. The cash flows have been based on the approved budget for the 2018 financial year, as well as a forecast until 2022 utilising the assumptions set out below:

Discount rate applied – The Group has calculated a weighted average cost of capital ("WACC") of 11,60% (2016: 11,88%). This is utilised as a basis for performing the value-in-use calculation. In cases where the CGU is deemed to be of greater risk than the Group as a whole, a risk premium has been included in the discount rate. The discount rates utilised for the purposes of the impairment testing was between 11,07% to 13,50% (2016: 12,81% to 14,5%).

Growth rate applied – In determining the growth rate, consideration was given to the growth potential of the CGU. As part of this assessment, a prudent outlook was adopted that mirrors an inflationary increase in line with the consumer price index and real growth expected within the market. Based on these factors, the nominal growth rate applied for the purposes of the impairment testing ranges between 4% and 5,5%.

Period of projection – The period of projection is influenced by the ability of management to forecast cash flows in the future. Forecasting has been performed for a period of five years with a growth rate as set out above.

Contract revenue and margin – Revenue and margins are based on management's best estimates of known contracts (both awarded and anticipated to be awarded).

9. IMPAIRMENTS continued

Sensitivity analysis

The impairment model took a conservative approach to determine the value-in-use. A test against the WACC and terminal growth rates was conducted by adjusting the rates as follows for steel impairment:

Sensitivity	Range of adjustments	Impact on current impairments
WACC	Plus 50 basis points	R56 million addition
WACC	Minus 50 basis points	R63 million reduction
Terminal growth rate	Plus 100 basis points	R116 million reduction
Terminal growth rate	Minus 100 basis points	R91 million addition

The following CGUs are relevant for impairment purposes:

CGUs assessed due to indicators of impairment being identified

- Aveng Trident Steel;
- Aveng Grinaker-LTA Mechanical and Engineering;
- Aveng Corporate;
- Aveng Mozambique;
- Aveng Shafts & Underground; and
- Aveng Moolmans.

CGUs with goodwill allocated (annually assessed for impairment as required by *IAS 38 Intangible assets* and *IAS 36 Impairment of assets*)

- Aveng Manufacturing; and
- McConnell Dowell.

9.1 Impairment of property, plant and equipment and intangible assets

a) Operating groups with cash-generating units impaired: Property, plant and equipment and finite useful life intangible asset

- Aveng Steel: Intangible assets and Property, plant and equipment of Aveng Trident Steel;
- Aveng Grinaker-LTA: Property, plant and equipment at Aveng Mechanical and Engineering;
- Aveng Corporate: Intangible assets and Property, plant and equipment of Aveng Corporate and Mozambique businesses; and
- Aveng Mining: Property, plant and equipment of Aveng Moolmans and Shafts & Underground businesses.

Aveng Steel

An impairment charge of R272 million was recognised against underutilised assets in Aveng Trident Steel.

Aveng Grinaker-LTA

An impairment charge of R2 million was recognised against underutilised assets in Aveng Mechanical and Engineering.

Aveng Corporate

An impairment charge of R5 million was recognised against underutilised assets in Aveng Corporate and Mozambique.

Aveng Mining

An impairment charge of R9 million was recognised against underutilised assets in Aveng Moolmans. Aveng Shafts & Underground business previously recorded an impairment of R15 million, of which R10 million was recovered in the current year.

9.2 Impairment of goodwill arising on consolidation

a) Cash-generating units not impaired and not sensitive to impairment

- Aveng Manufacturing and McConnell Dowell: Goodwill.

No reasonably probable change in any of the above key assumptions would cause the carrying amount of the Aveng Manufacturing CGU and McConnell Dowell respectively, to materially exceed their recoverable amount and hence no goodwill impairment loss has been recognised for the current or the prior year.

b) Cash-generating units impaired: Goodwill and associated finite useful life intangible asset

There were no impairments in the current year relating to goodwill and associated finite useful life intangibles.

Impairments recognised during the year

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

Notes to the consolidated financial statements continued

for the year ended 30 June 2017

10. PROPERTY, PLANT AND EQUIPMENT

Reconciliation of property, plant and equipment – 2017

	Land and buildings Rm	Leased plant, equipment and vehicles Rm	Owned plant, equipment and vehicles Rm	Total Rm
Cost				
Opening balance	**511**	**86**	**12 146**	**12 743**
Additions	**14**	**9**	**905**	**928**
Disposals	**(8)**	**(5)**	**(2 559)**	**(2 572)**
Transfers	**1**	**–**	**(103)**	**(102)**
Foreign exchange movements	**(28)**	**(4)**	**1 325**	**1 293**
	490	**86**	**11 714**	**12 290**
Accumulated depreciation and impairment				
Opening balance	**(96)**	**(50)**	**(7 754)**	**(7 900)**
Depreciation*	**(22)**	**(12)**	**(593)**	**(627)**
Impairment	**–**	**–**	**(225)**	**(225)**
Disposals	**8**	**5**	**2 391**	**2 404**
Transfers	**–**	**–**	**65**	**65**
Foreign exchange movements	**10**	**3**	**(1 409)**	**(1 396)**
	(100)	**(54)**	**(7 525)**	**(7 679)**
	390	**32**	**4 189**	**4 611**
Reconciliation of property, plant and equipment – 2016				
Cost				
Opening balance	661	187	11 826	12 674
Additions	26	7	461	494
Disposals	(2)	(9)	(1 267)	(1 278)
Classified as held-for-sale – transferred out	(193)	–	(221)	(414)
Foreign exchange movements	19	(99)	1 347	1 267
	511	86	12 146	12 743
Accumulated depreciation and impairment				
Opening balance	(94)	(118)	(6 836)	(7 048)
Depreciation*	(18)	(26)	(749)	(793)
Impairment	–	–	(333)	(333)
Disposals	1	8	1 174	1 183
Classified as held-for-sale – transferred out	28	–	188	216
Foreign exchange movements	(13)	86	(1 198)	(1 125)
	(96)	(50)	(7 754)	(7 900)
	415	36	4 392	4 843

* *Depreciation included in cost of sales amounted to R600 million (2016: R752 million) and amounts included in operating expenses amounted to R27 million (2016: R41 million). Refer to note 33: Operating expenses.*

10. PROPERTY, PLANT AND EQUIPMENT continued

The Group reviews the estimated useful lives of property, plant and equipment at the end of each reporting period.

A register containing the information required by Regulation 25(3) of the Companies Regulations, 2011 is available for inspection at the registered offices of the operating entities within the Group.

Pledged as security

The Group has pledged certain plant and machinery as security for certain interest-bearing borrowings (refer to *note 23: Borrowings and other liabilities*).

11. GOODWILL ARISING ON CONSOLIDATION

Reconciliation of goodwill arising on consolidation

	2017 Rm	2016 Rm
Cost		
Opening balance	**1 455**	1 455
	1 455	1 455
Accumulated impairment		
Opening balance	**(1 113)**	(1 113)
	(1 113)	(1 113)
Carrying amount	**342**	342

Allocation of goodwill to CGUs

Goodwill is allocated to the Group's CGUs identified according to the CGUs that are expected to benefit from the business combination. The carrying amount of goodwill has been allocated to the following CGUs:

	2017 Rm	2016 Rm
Dynamic Fluid Control	**242**	242
McConnell Dowell	**100**	100
	342	342

Notes to the consolidated financial statements continued

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12. INTANGIBLE ASSETS

Reconciliation of intangible assets – 2017

	Indefinite useful life brand names Rm	Indefinite useful life trade-marks Rm	Brand names Rm	Customer lists Rm	Know-how Rm	Computer software Rm	Total Rm
Cost							
Opening balance	**33**	**15**	**31**	**116**	**102**	**359**	**656**
Capitalised	**–**	**–**	**–**	**–**	**–**	**27**	**27**
	33	**15**	**31**	**116**	**102**	**386**	**683**
Accumulated depreciation and impairment							
Opening balance	**(33)**	**(15)**	**(14)**	**(79)**	**(62)**	**(128)**	**(331)**
Amortisation	**–**	**–**	**(2)**	**(3)**	**(4)**	**(19)**	**(28)**
Impairment	**–**	**–**	**–**	**–**	**–**	**(53)**	**(53)**
	(33)	**(15)**	**(16)**	**(82)**	**(66)**	**(200)**	**(412)**
	–	**–**	**15**	**34**	**36**	**186**	**271**
Reconciliation of intangible assets – 2016							
Cost							
Opening balance	33	15	31	116	102	343	640
Capitalised	–	–	–	–	–	16	16
	33	15	31	116	102	359	656
Accumulated depreciation and impairment							
Opening balance	(33)	(15)	(12)	(76)	(58)	(107)	(301)
Amortisation	–	–	(2)	(3)	(4)	(21)	(30)
	(33)	(15)	(14)	(79)	(62)	(128)	(331)
	–	–	17	37	40	231	325

		2017 Rm	2016 Rm
13.	**EQUITY-ACCOUNTED INVESTMENTS**		
	Opening balance	**100**	151
	Transfer to held-for-sale	**–**	(17)
	Loans advanced	**202**	65
	Obligation for Group share of REHM Grinaker construction losses*	**(26)**	26
	Capitalisation of interest to investment	**16**	–
	Acquisition of equity interest (Steeledale)	**33**	–
	Transaction costs capitalised	**11**	–
	Share of earnings after taxation and dividends	**4**	(132)
	Amount recorded in the statement of comprehensive earnings	**4**	(132)
	Dividends received	**–**	(2)
	Foreign currency translation movement	**(6)**	9
		334	100

Reconciliation of investments	**% holding**	2017 Rm	2016 Rm
Investments (including loan balances)			
Oakleaf Investment Holdings 86 Proprietary Limited	50	**38**	17
REHM Grinaker Property Co Limited	43	**17**	16
REHM Grinaker Construction Co Limited*	43	**6**	–
Dutco McConnell Dowell Middle East Limited	49	**52**	
Steeledale Proprietary Limited	30	**213**	56
Other		**8**	11
		334	100

* *Losses have been transferred to trade and other payables, being our share of the guaranteed losses. These losses were settled in the current year following the advancement of a loan to REHM Grinaker Construction.*

The following is summarised financial information for the Group's interest in associates and joint ventures, based on the amount reported in the Group's consolidated financial statements:

	2017 Rm	2016 Rm
Aggregate carrying amount of associates	**296**	83
Aggregate carrying amount of joint ventures	**38**	17
	334	100
The Group's share of results of operations of equity-accounted investments are summarised below:		
Associates		
Earnings / (loss) for the year	**3**	(101)
Joint ventures		
Earnings / (loss) for the year	**1**	(31)
Total from equity-accounted investments	**4**	(132)
Total share of earnings / (loss) from equity-accounted investments	**4**	(132)

Regulatory constraints

There are no regulatory constraints in South Africa, apart from the provision of the Companies Act 71 of 2008 (as amended) of South Africa, which restrict the distribution of funds to shareholders. There are also no regulatory constraints in Australia apart from profits from associates not being distributed without the consent of both the Group and the local shareholders.

Contingent liabilities

The Group's share of bank guarantees issued by its joint ventures and associates is R183 million (June 2016: R476 million). Other than as stated above, the Group did not incur any other contingent liabilities with regard to associates and joint ventures.

Notes to the consolidated financial statements continued

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14. INFRASTRUCTURE INVESTMENTS

	2017 Rm	2016 Rm
South African infrastructure investments		
Financial investments	**265**	177
	265	177
Total infrastructure investments	**265**	177

With effect from 1 July 2014, the Group's South African infrastructure investments were managed by ACP, these include all South African infrastructure investments in which the Group holds less than 50%. This business unit is determined to be operating as a venture capital organisation, such that the investments managed by ACP have been reclassified as financial assets at fair value through profit or loss.

In line with the Group's strategic objectives the successful disposal of Infrastructure investments that were held-for-sale was concluded in the current year. Please refer to *note 21: Non-current assets held-for-sale* for further details on the disposals and Infrastructure investments that were classified as held-for-sale.

The investment in Imvelo Company Concession Proprietary Limited was reclassified from held-for-sale as the conditions precedent required to conclude sale were not met. Management has since decided to retain its investment.

	2017 Rm	2016 Rm
South African infrastructure investments		
Opening balance	**177**	706
Transfer to non-current assets held-for-sale	**(4)**	(860)
Transfers from non-current assets held-for-sale	**39**	–
Fair value remeasurement through comprehensive earnings	**56**	251
Acquisition of interest in Dimopoint Proprietary Limited	**–**	67
Interest capitalised on loans	**6**	–
Loans advanced	**–**	65
Loan repayment	**(9)**	(52)
	265	177
Balance at the end of the year comprises:		
Dimopoint Proprietary Limited ("Dimopoint")	**144**	128
Imvelo Concession Company Proprietary Limited ("Imvelo")*	**63**	–
Firefly Investments 238 Proprietary Limited ("Firefly")	**58**	49
	265	177
Other infrastructure		
Opening balance	**–**	72
Foreign currency translation movement	**–**	12
Transfer to held-for-sale	**–**	(84)
	–	–

15. DEFERRED TAXATION

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

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

15. DEFERRED TAXATION continued

	2017 Rm	2016 Rm
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-down 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 margin in the foreseeable future.

16. DERIVATIVE INSTRUMENTS

	2017 Net fair value Rm	2016 Net fair value Rm
Current assets		
Derivative instruments at fair value through profit or loss	**2**	20
Current liabilities		
Derivative instruments at fair value through profit or loss	**17**	27

Derivative instruments subject to enforceable netting agreements amounted to net liability of R15 million and net liability (2016: R7 million). The Group held Rnil (2016: Rnil) of collateral against the net derivative asset exposure. International Swaps and Derivatives Association ("ISDA") Master Agreements are utilised by the Group. The ISDA Master Agreement and all the confirmations entered into under it form a single agreement. This allows the parties to an ISDA Master Agreement to aggregate the amounts owing by each of them under all of the transactions outstanding under that ISDA Master Agreement and to replace them with a single net amount payable by one party to the other. Refer to *note 50: Offsetting financial assets and financial liabilities* for further information.

Fair value

The amounts disclosed represent the fair value as at the reporting date of all derivative instruments held. The extent to which derivative instruments are favourable (assets) or unfavourable (liabilities) and therefore the aggregate fair values of derivative financial instruments can fluctuate significantly from time to time.

The fair values of derivative instruments and the foreign exchange risk management policies applied by the Group are disclosed in *note 49: Fair value of assets and liabilities* and *note 48: Risk management respectively*.

Notes to the consolidated financial statements continued

for the year ended 30 June 2017

		2017 Rm	2016 Rm
17.	**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.*

Included in amounts due from contract customers are non-current amounts of R756 million (2016: R1,4 billion). Refer to *note 48: Risk management* for further details.

[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.*

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

	2017 Rm	2016 Rm
18. TRADE AND OTHER RECEIVABLES		
Financial assets		
Trade receivables	**1 340**	1 351
Provision for doubtful debts	**(30)**	(42)
Reimbursive right	**–**	50
Sundry receivables	**372**	494
Non-financial assets		
Prepayments	**158**	205
	1 840	2 058
Movement in reimbursive right reconciliation		
Opening balance	**50**	46
Net premiums – after reinsurance	**–**	9
Claims	**(22)**	(12)
Return on fair value	**–**	7
Derecognition charge recognised in profit or loss	**(28)**	
	–	50

Aveng reviews its Global Insurance programme on an annual basis. In doing so a review of the changing business landscape is conducted to consider whether the insurance strategy requires any amendment. In reviewing the efficacy of this strategy the decision was taken that there were more beneficial means of employing capital. Hence, the strategy of a contingency fund covering insurance excess ceased.

The wind-up process of the cell was concluded on 30 November 2016 following the termination request effective on 31 December 2016. During this process, claims amounting to R22 million were settled against the liability reserve. The remaining carrying value was written off to profit or loss.

Prior to its termination the performance of Guardrisk Life Fund ("captive") was measured as the premium income earned within it, less any reinsurance, management and claims costs. The captive required that the owner of the captive inject capital into the captive in order to meet its solvency requirements. Profits from the activities in the captive would either be retained in the captive or paid out to the owners of the cell captive via dividends. In terms of the shareholders' agreement, all surplus can be paid out as dividends subject to meeting statutory reserving and capital requirements.

An amount of excess assets equal to 1,5 times of the capital adequacy requirement was retained in the captive to cover unforeseen fluctuations in experience based on the policy requirements.

Outstanding claims for the captive as at 30 June 2016 amounted to R1 million.

In the prior year the reimbursive asset amounted to R50 million based on the last conducted actuarial valuation. In total, R22 million of the total asset was allocated to possible future claims, no provision was recognised as these claims did not represent a current obligation. The amount of R22 million was not available for distribution.

Credit terms

Trade and other receivables comprise amounts owing to the Group in the normal course of business. Terms vary in accordance with contracts of supply and service and across business units, but are generally on 30 to 60-day terms from date of invoice. Indebtedness is generally interest free while within the terms of the original contract. No customers had sales larger than 10% of total revenue.

Refer to *note 48: Risk management* for further details regarding the credit risk exposure.

Notes to the consolidated financial statements continued

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		2017 Rm	2016 Rm
19.	**INVENTORIES**		
	Raw materials	**825**	804
	Work-in-progress	**72**	45
	Finished goods*	**967**	1 084
	Consumables	**278**	337
		2 142	2 270
	Allowance for obsolete inventory	**(57)**	(59)
		2 085	2 211
	Reconciliation of movement in allowance for obsolete inventory		
	Opening balance	**59**	64
	Allowance released	**(7)**	(5)
	Allowance created	**5**	–
		57	59
	Inventories utilised in cost of sales during the year	**9 154**	10 116
	Inventories written-off and impaired during the year	**7**	5

The value of inventory carried at net realisable value amounts to R408 million (2016: R332 million), with the balance carried at cost.

* *Included in the carrying amount of Finished goods is R12 million (2016: Nil) relating to a basis adjustment against the carrying amount of inventory. Management elected to apply IAS 39 par (b) in terms of which the effective portion of a cash flow hedge that has been deferred in Other comprehensive income, as a result of a highly probable forecast transaction, is adjusted against the carrying amount of Inventory on initial recognition.*

		2017 Rm	2016 Rm
20.	**CASH AND BANK BALANCES**		
	Cash and bank balances	**1 996**	2 450
		1 996	2 450
	Cash and bank balances at the end of the period include the following cash and bank balances that are restricted from immediate use		
	Group share of cash held by joint operations	**625**	696

The Group is offsetting notional bank overdrafts. Refer to *note 48: Risk management* for further disclosure on the Group's exposure to credit risk and *note 50: Offsetting financial assets and financial liabilities* for further disclosure on the impact of the Group's netting arrangements.

21. NON-CURRENT ASSETS HELD-FOR-SALE

Included in the carrying amount of non-current assets held-for-sale is an amount of R118 million relating to property and R4 million relating to an investment in JSG Proprietary Limited.

The investment in Imvelo Company Concessions Proprietary Limited was reclassified to Infrastructure Investments in the current year. Conditions precedent required to conclude the sale were not met and management has since decided to retain its investment in line with their strategic objectives.

The sale of Aveng Steeledale was concluded on 1 January 2017 and included the retention of a 30% interest in Steeledale Proprietary Limited.

The investments in Sishen, Gouda and N3 Tolling Concession were sold for R331 million, R295 million and R195 million respectively.

The GoldlinQ investment was sold for AUD8 million during the current year.

	2017 Rm	2016 Rm
Non-current assets held-for-sale	**122**	1 484
Non-current liabilities held-for-sale	**–**	(247)
	122	1 237

Movement during the year	**Properties**	**Aveng Steeledale**	**ACP**	**GoldlinQ**	**Other**	**2017 Rm Total**
Opening balance	**125**	**398**	**860**	**84**	**17**	**1 484**
Transferred from:						
Infrastructure investments	**–**	**–**	**4**	**–**	**–**	**4**
Transferred to:						
Effect of foreign currency translation	**–**	**–**	**–**	**(4)**	**–**	**(4)**
Infrastructure investments		**–**	**(39)**	**–**	**–**	**(39)**
Loans to Group companies	**–**	**(32)**	**–**	**–**	**–**	**(32)**
Inventory	**–**	**(36)**	**–**	**–**	**–**	**(36)**
Amounts due from contract customers	**–**	**(3)**	**–**	**–**	**–**	**(3)**
Trade and other receivables	**–**	**(36)**	**–**	**–**	**–**	**(36)**
Elimination of loans to Group companies	**–**	**32**	**–**	**–**	**–**	**32**
Sold	**(7)**	**(323)**	**(821)**	**(80)**	**(17)**	**(1 248)**
Total non-current assets held-for-sale	**118**	**–**	**4**	**–**	**–**	**122**
Non-current liabilities held-for-sale						
Opening balance	**–**	**(247)**	**–**	**–**	**–**	**(247)**
Loans from Group companies	**–**	**16**	**–**	**–**	**–**	**16**
Trade and other payables	**–**	**181**	**–**	**–**	**–**	**181**
Elimination of loans from Group companies	**–**	**(16)**	**–**	**–**	**–**	**(16)**
Sold	**–**	**66**	**–**	**–**	**–**	**66**
Total non-current liabilities held-for-sale	**–**	**–**	**–**	**–**	**–**	**–**
Net non-current assets held-for-sale	**118**	**–**	**4**	**–**	**–**	**122**

Notes to the consolidated financial statements continued

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21. NON-CURRENT ASSETS HELD-FOR-SALE continued

Movement during the year	Properties	Aveng Steeledale	ACP	GoldlinQ	Other	2016 Rm Total
Opening balance	559	–	–	–	–	559
Capitalised costs:						
Environmental provision relating to property	15	–	–	–	–	15
Transferred from/(to):						
Property, plant and equipment	163	35	–	–	–	198
Equity-accounted investments	–	–	–	–	17	17
Infrastructure investments	–	–	860	84	–	944
Loans to group companies	–	32	–	–	–	32
Inventory	–	169	–	–	–	169
Amounts due from contract customers	–	5	–	–	–	5
Trade and other receivables	–	165	–	–	–	165
Cash and cash equivalents	–	20	–	–	–	20
Taxation receivable	–	4	–	–	–	4
Elimination of loans to Group companies	–	(32)	–	–	–	(32)
Sold	(612)	–	–	–	–	(612)
Total non-current assets held for sale	125	398	860	84	17	1 484
Opening balance	–	–	–	–	–	–
Loans from Group companies	–	(16)	–	–	–	(16)
Trade and other payables	–	(247)	–	–	–	(247)
Elimination of loans from group companies	–	16	–	–	–	16
Total non-current liabilities held-for-sale	–	(247)	–	–	–	(247)
Net non-current assets held-for-sale	125	151	860	84	17	1 237

22. SHARE CAPITAL AND SHARE PREMIUM

	2017 Rm	2016 Rm
Authorised		
882 034 263 ordinary shares of 5 cents each	**44**	44
Issued		
Share capital (396 817 098 ordinary shares of 5 cents each)	**20**	20
Share premium	**1 989**	1 989
Share capital and share premium	**2 009**	2 009
Share premium		
Opening balance	**1 989**	2 003
Purchase of (2016: 4 294 700) treasury shares in terms of equity-settled share-based payment plan	**–**	(23)
(2016: 279 200) forfeitable share plan ("FSP") shares vested during the year	**–**	9
	1 989	1 989
Treasury shares		
Shares held by the Aveng Limited Share Purchase Trust		
– Number of shares	**6 018 386**	6 018 386
– Market value (Rm)	**35**	21
Shares held by the Aveng Management Company Proprietary Limited		
– Number of shares	**8 586 593**	8 586 593
– Market value (Rm)	**50**	30
Shares held in terms of equity-settled share-based payment plan		
– Number of shares	**5 248 854**	5 299 854
– Market value (Rm)	**31**	19

Reconciliation of number of shares issued	**Number of shares**	Number of shares
Opening balance	**416 670 931**	416 670 931
Closing balance – shares of 5 cents each	**416 670 931**	416 670 931
Less: Treasury shares	**(19 853 833)**	(19 904 833)
Number of shares in issue less treasury shares	**396 817 098**	396 766 098

		2017 Shares	**2017 Holding**	2016 Shares	2016 Holding
22.	**SHARE CAPITAL AND SHARE PREMIUM** continued				
	The top 10 shareholders of the Group as at 30 June 2017 are entities (or clients of these entities in aggregate) listed below:				
	Local				
	Allan Gray Investment Council	**103 861 025**	**24,9%**	102 765 038	24,7%
	Coronation Asset Management Proprietary Limited	**62 583 834**	**15,0%**	16 004 302	3,8%
	Investec Asset Management	**45 252 282**	**10,9%**	19 927 391	4,8%
	Visio Capital Management	**34 851 550**	**8,4%**	39 718 016	9,5%
	Mazi Capital Proprietary Limited (ZA)	**20 592 178**	**4,9%**	**	**
	Dimensional Fund Advisors	**18 906 244**	**4,5%**	18 604 024	4,5%
	The Vanguard Group Inc	**10 898 209**	**2,6%**	**	**
	Sanlam Investment Management	**9 926 765**	**2,4%**	12 118 806	2,9%
	Aveng Community Investment Trust (ZA)	**8 586 593**	**2,1%**	**	**
	Aveng Management Co Proprietary Limited (ZA)	**8 586 593**	**2,1%**	**	**
	Kagiso Asset Management Proprietary Limited	*	*	21 396 047	5,1%
	PIC	*	*	13 863 771	3,3%
	PSG Asset Investment	*	*	13 362 892	3,2%
	Foreign				
	Pzena Investment Management LLC	*	*	11 554 861	2,8%
		324 045 273	**77,8%**	269 315 148	64,6%

** Shareholder no longer in the top 10.*
*** Shareholder was not in the top 10 in prior year.*

		2017 Rm	2016 Rm
23.	**BORROWINGS AND OTHER LIABILITIES**		
	Borrowings held at amortised cost comprises:		
	Interest-bearing borrowings comprise:		
	Payment profile		
	– within one year	**1 121**	1 214
	– between two and 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

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23. BORROWINGS AND OTHER LIABILITIES continued

23.1 Borrowings held at amortised cost

Description	Terms	Rate of interest	2017 Rm	2016 Rm
Convertible bond of R2 billion	Interest coupon is payable bi-annually until July 2019	Coupon of 7,25%	**1 823**	1 731
Finance sale and lease back amounting to AUD2 million*	Monthly instalment ending in June 2018	Fixed interest of 5,15% to 6,08%	**24**	34
Hire purchase agreement amounting to AUD0,5 million*	Monthly instalments ending in May 2018	Fixed interest of 1,60% to 3,5%	**6**	11
Hire purchase agreement amounting to AUD1 million*	Monthly instalments ending in May 2021	Fixed interest of 4,04% to 7%	**8**	–
Hire purchase agreement amounting to AUD0,5 million*	Monthly instalments ending in November 2023	Fixed interest of 1,35% to 3,5%	**5**	–
Hire purchase agreement amounting to AUD2 million*	Monthly instalment ending in May 2018	Fixed interest rate of 5,90%	**23**	51
Short term facility of AUD10 million****	Repayable in September 2017	Bank bill swap rate plus 0,70%	**101**	110
Short term facility of AUD60 million***	Repayable in September 2017	Bank bill swap rate plus 2,20%	**603**	658
Finance lease facility AUD14 million	Monthly instalment ending in November 2020	Fixed interest rate of 4,5%	**145**	–
Hire purchase agreement amounting to AUD0,5 million*	Monthly instalment ending in August 2017	Fixed interest rate of 6,81%	**5**	42
Hire purchase agreement denominated in USD*	Quarterly instalments ending in September 2017	Fixed interest rate of 4,58% to 4,65%	**44**	138
Hire purchase agreement denominated in ZAR*	Monthly instalment ending in December 2017	South African prime less 2,00%	**16**	46
Hire purchase agreement denominated in ZAR*	Monthly instalment ending in November 2017	South African prime less 2,00%	**21**	–
Hire purchase agreement denominated in ZAR*	Monthly instalment ending in November 2019	South African prime less 1,70%	**51**	101
Hire purchase agreement denominated in ZAR*	Monthly instalment ending in May 2018	Fixed interest rate of 9,70%	**24**	49
Hire purchase facility denominated in ZAR	Monthly instalment ending in April 2021	Fixed interest rate of 10,58%	**66**	–
Finance lease facility denominated in ZAR	Monthly instalment ending in June 2018	Fixed interest rate of 9,8%	**4**	–
Hire purchase facility USD	Monthly instalment ending in August 2021	Fixed interest rate of 6,68%	**74**	–
Finance lease facilities denominated in ZAR*	Monthly instalment ending in March 2020	South African prime	**20**	11
Interest-bearing borrowings			**3 063**	2 982
Interest outstanding on interest-bearing borrowings**			**3**	2
Total interest-bearing borrowings			**3 066**	2 984

McConnell Dowell has secured guarantee facilities governed by a Security Trust Deed which requires the Company to meet certain financial covenants. The change in estimates on long-outstanding and uncertified revenue and related costs impacted EBITDA, Equity and the Tangible Net Worth of McConnell Dowell which affected the financial covenants in the Security Trust Deed. In anticipation of this, management engaged with banks in the Security Trust and obtained variations to the financial covenants for all reporting quarters until 30 June 2018.

* *These borrowings and other liabilities are finance leases.*

** *Interest outstanding in the current year relates to finance leases.*

*** *Backed by a bank guarantee.*

**** *Secured by cash collateral in South Africa.*

23. BORROWINGS AND OTHER LIABILITIES continued

23.1 Borrowings held at amortised cost continued

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

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

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

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

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

23.2 Convertible bonds

	Convertible bond liability Rm	**Convertible bond equity reserve Rm**	**Total Rm**
2017			
Opening balance	**1 731**	**268**	**1 999**
Coupon bi-annual payment	**(145)**	**–**	**(145)**
Interest determined with the effective interest rate*	**237**	**–**	**237**
Accrual of coupon interest for convertible bond	**145**	**–**	**145**
Unwinding of liability owing to:			
– Transaction costs capitalised	**8**	**–**	**8**
– Effect of fair value adjustment of derivative liability	**6**	**–**	**6**
– Effect of fair value of conversion option reclassification to equity	**78**	**–**	**78**
	1 823	**268**	**2 091**
2016			
Opening balance	1 651	390	2 041
Coupon bi-annual payment	(145)	–	(145)
Recognition of deferred tax on convertible bond	–	(122)	(122)
Interest determined with the effective interest rate*	225	–	225
Accrual of coupon interest for convertible bond	144	–	144
– Transaction costs capitalised	7	–	7
– Effect of fair value adjustment of derivative liability	6	–	6
– Effect of fair value of conversion option reclassification to equity	68	–	68
	1 731	268	1 999

* *Interest on convertible bond.*

During July 2014, the Group issued convertible bonds denominated in South African Rand with a nominal value of R2 billion and a coupon rate of 7,25%. Interest is payable – annually for a period of five years with the bond repayment date being five years from issue date at par plus interest. The effective interest rate associated with the convertible bond liability is 13,6%.

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24. PAYABLES OTHER THAN CONTRACT-RELATED

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

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

South African government settlement

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

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

	2017 Rm	2016 Rm
25. TRADE AND OTHER PAYABLES		
Trade payables	**2 604**	2 787
Sub-contractors	**269**	338
Accrued expenses	**2 302**	2 197
Income received in advance	**107**	110
Promissory notes	**627**	454
	5 909	5 886

Trade and other payables comprise amounts owing to suppliers for goods and services supplied in the normal course of business.

Promissory notes are issued by the Group to manage working capital levels and do not represent funding facilities and are accounted for as trade payables. These promissory notes bear interest between a range of 10,84% and 16,04% per annum. Terms vary in accordance with contracts of supply and service but are generally settled on 30 to 90 day terms.

Included in income received in advance is an advance payment received relating to the Perth Airport contract of AUD10 million (R101 million) (2016: AUD10 million (R110 million)).

26. EMPLOYEE-RELATED PAYABLES

IFRS 2 Share-based payment obligation

Share-based payment obligations comprise cash-settled options for executives and senior employees. The cost of cash-settled transactions is measured initially at fair value at the grant date using an adjusted binomial option pricing model taking into account the terms and conditions upon which the instruments were granted. This fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is remeasured at each reporting date up to and including the settlement date with changes in fair value recognised in earnings. Refer to *note 28: Share-based payments.*

Employee entitlements

Employee entitlements are obligations raised for the various employee incentive plans in place throughout the Group. Included in employee entitlements are short- and medium-term incentive plan obligations, along with statutorily determined retrenchment commitments.

Leave pay benefits

Leave pay benefits are amounts due to employees for accumulated leave balances, the timing of which is uncertain at year-end. Discounting of these obligations amounts to R13 million (2016: R12 million) accretion.

	Opening balance Rm	Recognised / (reversed) in earnings or loss Rm	Utilised Rm	Currency adjustment Rm	Unwinding of discount Rm	Total Rm
Reconciliation of employee-related payables – 2017						
IFRS 2 – Share-based payment	*****	**25**	**(3)**	**–**	**–**	**22**
Employee entitlements	**535**	**134**	**(210)**	**(7)**	**–**	**452**
Leave pay benefits	**403**	**121**	**(146)**	**(26)**	**(13)**	**339**
	938	**280**	**(359)**	**(33)**	**(13)**	**813**
Reconciliation of employee-related payables – 2016						
IFRS 2 – Share-based payment	*	*	*	*	*	*
Employee entitlements	606	200	(272)	1	–	535
Leave pay benefits	510	559	(717)	63	(12)	403
	1 116	759	(989)	64	(12)	938

* *Less than R1 million.*

	2017 Rm	2016 Rm
Non-current	**312**	379
Current	**501**	559
	813	938

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for the year ended 30 June 2017

27. EQUITY-SETTLED SHARE-BASED PAYMENT RESERVE

The Group has a forfeitable share plan in place under which certain senior executives have been granted shares in the Company. A description of the plan as well as the terms and conditions relating to awards made are disclosed in the remuneration report, available on the Group's website.

Details of awards made are disclosed in *note 47: Directors' emoluments and interests.*

	2017 Rm	2016 Rm
Opening balance	**19**	15
Equity-settled share-based payment expense	**12**	13
Equity-settled shares vested	**–**	(9)
	31	19

28. SHARE-BASED PAYMENTS

28.1 Cash-settled share-based payment plan

28.1.1 Share option plan

In terms of the Aveng Limited Share Option Plan, certain full time employees of the Company and any of its subsidiaries, including directors holding full time salaried employment or office, are entitled under the plan to hold a limit of 5% of the issued share capital. No one participant may be allotted shares in excess of 2% of the issued share capital of the Company. The scheme was discontinued in 2011.

The movements during the year under review were as follows:

	2017 Weighted average exercise price	**2017 Number of options**	2016 Weighted average exercise price	2016 Number of options
Opening balances	**39,10**	**2 052 606**	39,87	3 201 755
Options exercised*	**–**	**–**	–	–
Options forfeited / cancelled	**40,45**	**(136 021)**	40,20	(1 149 149)
	38,92	**1 916 585**	39,10	2 052 606
Number of exercisable options and exercise price at year-end	**38,92**	**1 916 585**	39,10	2 052 606

** No options were exercised during the current year and previous year.*

The right to take delivery or to exercise the option vests in tranches two years from the grant date at the rate of 25% each year for four years. Participants can defer exercising the options subject to the rules of the plan but must exercise within 10 years of the grant date.

28. SHARE-BASED PAYMENTS *continued*

28.1 Cash-settled share-based payment plan *continued*

28.1.1 Share option plan continued

The options outstanding at 30 June 2017 become unconditional between the following vesting dates:

Grant date	Vesting period	Expiry date	Subscription price R	Number of options 2017	Number of options 2016
14 September 2007	14 September 2009 to 14 September 2012	14 September 2017	53,16	**36 920**	36 920
1 October 2007	1 October 2009 to 1 October 2012	1 October 2017	54,84	**155 000**	155 000
10 March 2008	10 March 2010 to 10 March 2013	10 March 2018	52,00	**68 738**	106 068
24 October 2008	24 October 2010 to 24 October 2013	24 October 2018	42,80	**218 415**	239 965
2 January 2009	2 January 2011 to 2 January 2014	2 January 2019	30,52	**19 659**	19 659
9 September 2009	9 September 2011 to 9 September 2014	9 December 2019	40,30	**106 844**	122 190
8 September 2010	8 September 2012 to 8 September 2015	8 September 2020	37,70	**1 059 246**	1 121 041
13 May 2011	13 May 2013 to 13 May 2016	13 May 2021	33,85	**251 763**	251 763
				1 916 585	2 052 606

Should the option holder resign from a Group company prior to the vesting dates as indicated above, the right to the shares or options will be forfeited.

The Aveng Limited Share Purchase Trust ("the Trust") will be funded out of its own resources, and / or loans to be made by Group companies that employ participants in accordance with the provisions of section 44 of the Companies Act 71 of 2008 (as amended) of South Africa. The Trust held 6 018 386 ordinary shares at 30 June 2017 (2016: 6 018 386 ordinary shares).

The Trust's financial results are consolidated with those of the Group.

The fair value of the options granted under the scheme are estimated at the date of the grant using the adjusted binomial option pricing model.

The following assumptions were used in valuing the various options at grant date:

	2017 %	2016 %
Expected volatility	**42,9**	42,9
Expected dividend yield	**2,6**	2,6

The risk-free rates were interpolated from a term structure of interest rates. These rates were obtained with reference to the following market rates:

- Three to twelve-month rates on forward rate agreements ("FRAs"); and
- One to ten-year swap rates.

Notes to the consolidated financial statements continued

for the year ended 30 June 2017

28. SHARE-BASED PAYMENTS continued

28.1 Cash-settled share-based payment plan continued

28.1.2 Share Appreciation Rights Plan ("SARs")

In terms of the Group SARs Plan which came into effect during the 2012 financial year. Certain full-time employees of the Company and its subsidiaries, including directors holding full-time salaried employment or office, are entitled under the plan to hold a limit of 10% of the issued share capital (plan as a whole). No one participant may acquire shares in excess of 2,5% of the issued share capital of the Company. This scheme was replaced by the Aveng Long Term Incentive Plan ("LTIP"), approved at the AGM in October 2015.

The movements during the year under review were as follows:

	2017 Weighted average exercise price	**2017 Number of options**	2016 Weighted average exercise price	2016 Number of options
Opening balances	**26,76**	**13 678 603**	26,87	17 925 737
Options forfeited / cancelled	**28,89**	**(9 255 263)**	27,28	(4 247 134)
	20,89	**4 423 340**	26,76	13 678 603

The right to take delivery or to exercise the option vests in tranches three years from the date of allocation at the rate of 33,3% each year for three years. Participants may defer exercising the right subject to the rules of the plan and vesting criteria but must exercise within seven years of the allocation date.

The options outstanding as at 30 June 2017

Grant date	**Vesting period**	**Expiry date**	**Subscription price R**	**Number of SARs 2017***	Number of SARs 2016
14 December 2011	13 December 2014 and 13 December 2016	14 December 2018	33,75	**–**	2 009 527
15 March 2012	15 March 2015 and 15 March 2017	15 March 2019	37,95	**–**	188 000
17 October 2012	17 October 2015 and 17 October 2017	17 October 2019	30,90	**–**	2 508 492
19 March 2013	19 March 2016 and 19 March 2018	19 March 2020	35,80	**–**	75 000
25 September 2013	25 September 2016 and 25 September 2018	25 September 2020	25,00	**–**	3 460 344
25 February 2014	25 February 2017 and 25 February 2019	25 February 2021	21,80	**–**	102 500
27 August 2014	27 August 2017 and 27 August 2019	27 August 2021	23,94	**867 500**	995 400
9 September 2014	9 September 2017 and 9 September 2019	9 September 2021	22,63	**243 040**	243 040
5 November 2014	5 November 2017 and 5 November 2019	5 November 2021	20,75	**3 312 800**	4 096 300
				4 423 340	13 678 603

* *In light of the performance condition not being satisfied, SARs reported hereunder were automatically forfeited in terms of the scheme rules and endorsement of the remuneration and nomination committee.*

28. SHARE-BASED PAYMENTS continued

28.1 Cash-settled share-based payment plan continued

28.1.3 Conditional share plan

Due to Aveng Limited being 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. In light of recognising the importance of retaining critical leadership talent to the future success of Aveng, and ensuring that employees remain incentivised to achieve target performance, Aveng took advice from its advisers and sponsor and considered industry practice to determine an appropriate alternative to the LTIP awards. On this basis, the committee decided to make cash-settled conditional share awards to certain selected executive and senior employees. The design principles of the cash-settled conditional share plan mirror those of the approved LTIP scheme, with the only exception that the plan is settled in cash. Vesting of the performance awards are subject to the satisfaction of a performance condition, which is the same as the approved LTIP, measured over the performance period of three years.

On resignation, the employee will forfeit all unvested awards. On death, retrenchment, sale of employer company, disability or retirement, only a portion of the awards will vest, calculated based on the number of months worked over the total vesting period, subject to the satisfaction of performance conditions if any are applicable at that stage. The plan is cash-settled.

The awards granted during the year under review were as follows:

Grant date	Vesting period	Number of awards 2017
15 August 2016	15 August 2017 – 15 August 2019	**366 597**
19 September 2016	18 September 2019	**9 558 333**
1 December 2016	30 November 2019	**100 000**
4 April 2017	3 April 2020	**50 000**
1 June 2017	31 May 2020	**75 000**
		10 149 930

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28. SHARE-BASED PAYMENTS continued

28.2 Equity-settled share-based payment plan

28.2.1 Forfeitable Share Plan

In terms of the Group Forfeitable Share Plan ("FSP"), senior executives of the Group, including executive directors, are granted shares in the Group for no consideration. The provision of shares will initially serve as a retention mechanism but can in future be used as an incentive mechanism with retention awards only made on an ad hoc basis as and when required of three years. Vesting of the awards will be subject to the satisfaction of performance conditions measured over the performance period of three years. These shares participate in dividends and shareholder rights from grant date. The shares are subject to forfeit if the employee leaves the employment of the Group prior to the third anniversary of the award date.

On resignation, the employee will forfeit all unvested shares. On death, retrenchment, sale of employer company, disability or retirement, only a portion of the shares will vest, calculated based on the number of months worked over the total vesting period, subject to the satisfaction of performance conditions, if any are applicable at that stage. The plan is settled in shares and therefore is equity-settled. There are no portions of the plan that have been cash-settled.

This scheme was replaced by the Aveng Long Term Incentive Plan ("LTIP") approved at the AGM in October 2015.

	2017 Number of shares	2016 Number of shares
The movements during the year were as follows:		
Opening balance	**5 183 072**	1 284 354
Shares granted	**–**	4 294 700
Shares vested / exercised	**–**	(279 200)
Shares forfeited*	**(452 891)**	(116 782)
	4 730 181	5 183 072
Average purchase price of shares granted to participant (R)	**–**	5,15
Total value of forfeitable shares granted to participants (Rm)	**–**	22

* *In light of the performance condition not being satisfied, shares reported hereunder were automatically forfeited in terms of the scheme rules and endorsement of the Remuneration and Nomination Committee.*

		2017	2016
29.	**POST-EMPLOYEE BENEFITS**		
	Defined contribution plan		
	Aveng Group and industry retirement plans*	**10 628**	10 651
	McConnell Dowell Corporation Limited plan*	**1 791**	2 158
	Number of covered employees	**12 419**	12 809
	Number of employees not covered*	**2 413**	4 139
	Total number of employees	**14 832**	16 948
	Cover ratio	**83,7%**	75,6%
	The Group's retirement expense (Rm)	**332**	393

** Number of employees.*

Defined benefit plan

The fund is a closed defined benefit plan, in terms of which an Annuity Purchase Agreement was entered into in 2001, whereby the pensioner liabilities were fully outsourced to and guaranteed by Momentum Group Limited. In the event that Momentum Group is no longer able to perform in terms of an Annuity Purchase Agreement, the obligation to fund the pensioner liabilities may revert to the Group.

The member surplus apportionment account is defined benefit in nature, fully funded and accordingly has no foreseen future funding obligation by the Group. The Group is no longer making contributions to the fund and has no recourse to any of the assets of the fund.

The Group has assessed the likelihood of Momentum being unable to perform in terms of an annuity purchase agreement to be remote.

		2017 Rm	2016 Rm
30.	**REVENUE**		
	Construction contract revenue**	**16 010**	26 140
	Sale of goods	**7 323**	7 470
	Other revenue	**19**	19
	Transport revenue	**104**	126
		23 456	33 755

*** Reduction in Construction contract revenue relates to long-outstanding uncertified claims which have been written down in the current period, refer to note 6: Significant change in estimates.*

		2017 Rm	2016 Rm
31.	**COST OF SALES**		
	Operating lease charges – premises	**147**	151
	Earnings from contract-related property, plant and equipment	**(132)**	(32)
	Depreciation of property, plant and equipment	**600**	752
	Employee cost	**5 359**	6 696
	Employee benefits	**140**	116
	Materials	**9 789**	9 608
	Sub-contractors	**6 822**	8 612
	Other	**3 866**	5 357
		26 591	31 260
32.	**OTHER EARNINGS**		
	Dividends received	**8**	7
	Discount received	**113**	116
	Other income	**68**	68
	Foreign exchange gains***	**(45)**	85
	Other gains	**6**	8
	Fair value adjustments	**56**	307
		206	591

**** Includes gains on forward exchange contracts.*

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		2017 Rm	2016 Rm
33.	**OPERATING EXPENSES**		
	Operating lease charges	**93**	133
	Rationalisation and restructuring	**12**	189
	Depreciation of property, plant and equipment	**27**	41
	Amortisation of intangible assets	**28**	30
	Share-based payment expense	**29**	13
	Employee costs	**1 335**	1 675
	Employee benefits	**74**	23
	Computer costs	**116**	128
	Consulting fees	**64**	82
	Other	**527**	494
		2 305	2 808
34.	**FINANCE EARNINGS**		
	Interest received	**198**	211
35.	**OTHER FINANCE EXPENSES**		
	Interest on debts and borrowings	**337**	247
	Commitment fees and other costs	**68**	80
		405	327
36.	**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

	%	%
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 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.

37. LOSS AND HEADLINE LOSS PER SHARE

	2017 Number of shares	2017 Weighted average number of shares	2016 Number of shares	2016 Weighted average number of shares
Opening balance	**416 670 931**	**416 670 931**	416 670 931	416 670 931
	416 670 931	**416 670 931**	416 670 931	416 670 931
Less: Treasury shares				
Aveng Limited Share Purchase Trust	**(6 018 386)**	**(6 018 386)**	(6 018 386)	(6 018 386)
Aveng Management Company Proprietary Limited	**(8 586 593)**	**(8 586 593)**	(8 586 593)	(8 586 593)
Equity-settled share-based payment plan	**(5 248 854)**	**(5 248 854)**	(5 299 854)	(4 658 538)
Total treasury shares	**(19 853 833)**	**(19 853 833)**	(19 904 833)	(19 263 517)
Weighted average number of shares	**396 817 098**	**396 817 098**	396 766 098	397 407 414
Add: Contingently issuable shares in terms of the equity-settled share-based payment plan	**5 248 854**	**5 248 854**	5 299 854	4 658 538
Diluted weighted average number of shares in issue*	**402 065 952**	**402 065 952**	402 065 952	402 065 952
Note	22		22	

* *The convertible bonds were anti-dilutive for the years ended 30 June 2017 and 2016 and have therefore not been included in the calculation of diluted number of shares.*

	2017		2016	
	Gross of taxation Rm	Net of taxation Rm	Gross of taxation Rm	Net of taxation Rm
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)

** *Earnings are calculated in accordance with IAS 33 Earnings per share. Headline earnings is calculated in accordance with Circular 2 / 2015.*

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		Note	2017 Rm	2016 Rm
37.	**LOSS AND HEADLINE LOSS PER SHARE** continued			
	Determination of diluted earnings*			
	Loss for the period attributable to equity holders of the parent		**(6 708)**	(101)
	Diluted loss for the period attributable to equity holders of the parent		**(6 708)**	(101)
	Diluted headline loss		**(6 708)**	(299)
	Loss per share – basic (cents)		**(1 690,6)**	(25,4)
	Loss per share – diluted (cents)		**(1 668,2)**	(25,1)
	Headline loss per share – basic (cents)		**(1 625,3)**	(75,2)
	Headline loss per share – diluted (cents)		**(1 603,3)**	(74,4)
	Adjusted loss per share – basic (cents)		**(155,5)**	(73,5)
	Adjusted headline loss per share – basic (cents)		**(158,8)**	(75,2)

* *The convertible bonds were anti-dilutive for the years ended 30 June 2017 and 2016 and have therefore not been included in the calculation of diluted earnings.*

		Note	2017 Rm	2016 Rm
38.	**CASH (UTILISED) / RETAINED FROM OPERATIONS**			
	(Loss) / earnings before taxation		**(6 113)**	64
	Finance earnings		**(198)**	(211)
	Finance expenses		**642**	551
	Dividend earnings		**(8)**	(7)
	Share of (earnings) / loss from equity-accounted investment		**(4)**	132
			(5 681)	529
39.	**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 write-down R2,7 billion. Refer to note 6: Significant change in estimates.*

		Note	2017 Rm	2016 Rm
40.	**FINANCE EXPENSES PAID**			
	Amount charged to the statement of comprehensive earnings		**(642)**	(551)
	Movement in finance expenses unpaid		**111**	93
			(531)	(458)
41.	**FINANCE EARNINGS RECEIVED**			
	Amount charged to the statement of comprehensive earnings		**198**	211
	Movement in accrued finance earnings		**17**	3
			215	214
42.	**TAXATION PAID**			
	Amounts unpaid at the beginning of the period		**(106)**	(94)
	Amounts charged to the statement of comprehensive earnings – normal tax	36	**(91)**	*(328)*
	Amounts (overpaid) / unpaid at the end of the period		**(61)**	106
	Amounts relating to foreign currency translation movement		**76**	–
			(182)	316

		2017 Rm	2016 Rm
43.	**DIVIDENDS PAID**		
	Dividends to non-controlling interest*	**(3)**	(2)
		(3)	(2)

* *Dividends were paid by a subsidiary of McConnell Dowell during the year and the amount relates to dividends paid to non-controlling interest that did not eliminate upon consolidation.*

		2017 Rm	2016 Rm
44.	**COMMITMENTS**		
	Authorised capital expenditure		
	– Contracted	**187**	79
	– Authorised, but not contracted	**9**	37
	Total capital expenditure	**196**	116

It is anticipated that this expenditure will be in respect of capital equipment which will be financed from existing cash or borrowing facilities.

	2017 Rm	2016 Rm
Operating leases commitments		
The future minimum lease payments under non-cancellable operating leases are as follows:		
– within one year	**333**	241
– in second to fifth year inclusive	**892**	848
– later than five years	**948**	1 325
	2 173	2 414

		2017 Rm	2016 Rm
45.	**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.

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46. DISPOSAL OF ASSETS AND LIABILITIES

On 1 January 2017, 70% equity stake of Aveng Steeledale was sold for a combination of cash and a vendor finance basis.

Steeledale formed part of the Manufacturing and Processing segment. Steeledale was not considered an operating segment nor a separate major line of business or geographical area. The sale of this business does not give rise to a discontinued operation.

	2017 Rm
Net cash impact of sale	
Total assets (excluding cash and bank balances)	**303**
Property, plant and equipment, net of accumulated depreciation and impairment losses	**35**
Tax receivable	**4**
Inventories	**133**
Amounts due from contract customers	**2**
Trade and other receivables, net of provisions	**129**
Cash and bank balances	**20**
Total liabilities	**(66)**
Trade and other payables	**(66)**
Net assets sold	**257**
Fair value of the 30% remaining investment	**(33)**
Fair value of shareholder's loan granted	**(174)**
Total proceeds received in cash	**50**

Transaction costs incurred relating to this transaction amounts to R11 million that was capitalised to the equity-accounted investment. Refer to *note 13: Equity-accounted investments*

47. DIRECTORS' EMOLUMENTS AND INTERESTS

Directors' emoluments below are disclosed in Rand thousands (R'000):

Executive directors

	Year	Guaranteed earnings[1] R'000	Salary[2] R'000	Retirement fund[3] R'000	Other payments R'000	Short-term incentive (STI)[4] R'000	Medium-term incentive (MTI)[5] R'000	Total R'000
HJ Verster (SA)[6]	**2017**	**6 261**	**6 003**	**258**	**–**	**–**	**127**	**6 388**
	2016	5 444	5 040	404	4 150	854	224	10 672
JJA Mashaba (SA)	**2017**	**4 026**	**3 838**	**188**	**–**	**–**	**107**	**4 133**
	2016	3 748	3 508	240	2 438	450	198	6 834
AH Macartney (SA)[7]	**2017**	**3 931**	**3 699**	**232**	**1 500**	**–**	**–**	**5 431**
	2016	3 816	3 587	229	1 300	420	–	5 536
DG Robinson (AUS)[8]	**2017**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2016	545	545	–	949	–	–	1 494

1 *Directors are remunerated on a total guaranteed package ("TGP"), made up of salary and retirement fund as noted below.*
2 *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 are funded from the director's TGP.*
3 *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 has resulted in commensurate increase in basic salary.*
4 *The Aveng Remuneration and Nomination Committee exercised its discretion to defer the award of STI bonuses for the 2016 / 2017 financial year.*
5 *MTI paid in March 2017 in respect of previous years' awards. The scheme was discontinued from the 2015 / 2016 financial year.*
6 *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 as well as individual performance. Mr Verster received a 5% increase in TGP in January 2017.*
7 *Other payment for AH Macartney relates to a 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.*
8 *DG Robinson retired 17 August 2015; earnings are disclosed in AUD.*

47. DIRECTORS' EMOLUMENTS AND INTERESTS continued

Executive share incentive scheme entitlement – Old Share Option Scheme (Discontinued in 2011)

	Date from which exercisable	Date on which expires	Strike price R	Number entitled to at 1 July 2016	Number granted during the year	Number redeemed or taken up or forfeited during the year	**Number entitled to at 30 June 2017**
HJ Verster	Sept 2012	Sept 2020	37,70	66 246	–	–	**66 246**
	Sept 2013	Sept 2020	37,70	66 246	–	–	**66 246**
	Sept 2014	Sept 2020	37,70	66 246	–	–	**66 246**
	Sept 2015	Sept 2020	37,70	66 249	–	–	**66 249**
				264 987	–	–	**264 987**
JJA Mashaba	Sept 2009	Sept 2017	54,84	38 750	–	–	**38 750**
	Sept 2010	Sept 2017	54,84	38 750	–	–	**38 750**
	Sept 2011	Sept 2017	54,84	38 750	–	–	**38 750**
	Sept 2012	Sept 2017	54,84	38 750	–	–	**38 750**
	Oct 2010	Oct 2018	42,80	39 816	–	–	**39 816**
	Oct 2011	Oct 2018	42,80	39 816	–	–	**39 816**
	Oct 2012	Oct 2018	42,80	39 816	–	–	**39 816**
	Oct 2013	Oct 2018	42,80	39 816	–	–	**39 816**
	Sept 2011	Sept 2019	40,30	17 314	–	–	**17 314**
	Sept 2012	Sept 2019	40,30	17 314	–	–	**17 314**
	Sept 2013	Sept 2019	40,30	17 314	–	–	**17 314**
	Sept 2014	Sept 2019	40,30	17 316	–	–	**17 316**
	Sept 2012	Sept 2020	37,70	18 486	–	–	**18 486**
	Sept 2013	Sept 2020	37,70	18 486	–	–	**18 486**
	Sept 2014	Sept 2020	37,70	18 486	–	–	**18 486**
	Sept 2015	Sept 2020	37,70	18 486	–	–	**18 486**
				457 466	–	–	**457 466**

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47. DIRECTORS' EMOLUMENTS AND INTERESTS continued

Non-executive directors

	Directors' fees R'000	Chairman fees R'000	Committee fees R'000	Other fees[1] R'000	Total R'000
2017					
AWB Band[2]	**76**	**–**	**65**	**–**	**141**
EK Diack[3]	**339**	**311**	**524**	**230**	**1 404**
PJ Erasmus	**339**	**210**	**284**	**–**	**833**
MA Hermanus	**339**	**182**	**18**	**–**	**539**
MJ Kilbride	**339**	**–**	**305**	**–**	**644**
T Mokgosi-Mwantembe[4]	**339**	**156**	**110**	**–**	**605**
MI Seedat	**339**	**818**	**875**	**303**	**2 335**
M Mzondeki	**339**	**–**	**267**	**–**	**606**
SJ Flanagan	**339**	**–**	**372**	**78**	**789**
	2 788	**1 677**	**2 820**	**611**	**7 896**
PA Hourquebie[5] (£)	**53**	**–**	**17**	**5**	**75**
2016					
AWB Band[2]	326	–	534	–	860
PK Ward	326	–	472	–	798
EK Diack	326	145	622	221	1 314
PJ Erasmus	326	121	278	–	725
MA Hermanus	326	108	66	–	500
MJ Kilbride	326	–	268	–	594
T Mokgosi-Mwantembe	326	121	181	–	628
MI Seedat	326	716	925	290	2 257
M Mzondeki	326	–	251	–	577
SJ Flanagan	254	–	112	–	366
	3 188	1 211	3 709	511	8 619
PA Hourquebie[5] (£)	52	–	6	–	58

[1] *Other fees relate to attendance at subsidiary board meetings.*
[2] *AWB Band retired 19 August 2016.*
[3] *E Diack appointed as executive chairman effective 24 August 2017.*
[4] *Refer to related party transactions disclosed in note 52: Related parties.*
[5] *PA Hourquebie fees disclosed in British Pounds (£).*

Annual review of non-executive directors' fees

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 two Board committees, a detailed, benchmarking exercise comprising UK-based directors serving on JSE listed companies was undertaken to determine a composite fee payable to him. In addition, a per meeting fee was also determined.

Whilst market benchmarks provide an indication of competitiveness of non-executive director fees, other considerations such as Company performance and affordability also influence fee increases.

47. DIRECTORS' EMOLUMENTS AND INTERESTS continued

Interest of directors of the Company in share capital

	Ordinary shares 2017	Ordinary shares 2016
Executive directors		
JJA Mashaba	**89 661**	139 661
H Verster	**105 800**	523 930
	195 461	663 591
Non-executive directors		
AW Band	**20 000**	20 000
MJ Kilbride	**10 000**	10 000
PK Ward	**10 000**	10 000
	40 000	40 000
	235 461	703 591

On the above mentioned shares there is no percentage of issued securities.

Securities are beneficially held.

Share Appreciation Rights ("SARs") plan – Old Scheme (Discontinued in 2015)

	Date from which exercisable	Date on which expires	Strike price R	Number entitled to at 1 July 2016	Number granted during the year	Number redeemed or taken up or forfeited during the year	**Number entitled to at 30 June 2017**
HJ Verster	Dec 2014	Dec 2018	33,75	36 999	–	36 999	**–**
	Dec 2015	Dec 2018	33,75	36 999	–	36 999	**–**
	Dec 2016	Dec 2018	33,75	37 002	–	37 002	**–**
	Oct 2015	Oct 2019	30,90	42 267	–	42 267	**–**
	Oct 2016	Oct 2019	30,90	42 267	–	42 267	**–**
	Oct 2017	Oct 2019	30,90	42 266	–	42 266	**–**
	Sept 2016	Sept 2020	25,00	54 500	–	54 500	**–**
	Sept 2017	Sept 2020	25,00	54 500	–	54 500	**–**
	Sept 2018	Sept 2020	25,00	54 500	–	54 500	**–**
	Aug 2017	Aug 2021	23,94	72 266	–	–	**72 266**
	Aug 2018	Aug 2021	23,94	72 266	–	–	**72 266**
	Aug 2019	Aug 2021	23,94	72 268	–	–	**72 268**
				618 100	–	401 300	**216 800**
JJA Mashaba	Dec 2014	Dec 2018	33,75	29 999	–	29 999	**–**
	Dec 2015	Dec 2018	33,75	29 999	–	29 999	**–**
	Dec 2016	Dec 2018	33,75	30 002	–	30 002	**–**
	Oct 2013	Oct 2019	30,90	33 633	–	33 633	**–**
	Oct 2014	Oct 2019	30,90	33 633	–	33 633	**–**
	Oct 2015	Oct 2019	30,90	33 634	–	33 634	**–**
	Sept 2016	Sept 2020	25,00	53 466	–	53 466	**–**
	Sept 2017	Sept 2020	25,00	53 466	–	53 466	**–**
	Sept 2018	Sept 2020	25,00	53 468	–	53 468	**–**
	Aug 2017	Aug 2021	23,94	63 566	–	–	**63 566**
	Aug 2018	Aug 2021	23,94	63 566	–	–	**63 566**
	Aug 2019	Aug 2021	23,94	63 568	–	–	**63 568**
				542 000	–	351 300	**190 700**

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47. DIRECTORS' EMOLUMENTS AND INTERESTS continued

Share Appreciation Rights ("SARs") plan continued

	Date from which exercisable	Date on which expires	Strike price R	Number entitled to at 1 July 2016	Number granted during the year	Number redeemed or taken up or forfeited during the year	**Number entitled to at 30 June 2017**
AH Macartney	Sept 2017	Sept 2021	22,63	81 013	–	–	**81 013**
	Sept 2018	Sept 2021	22,63	81 013	–	–	**81 013**
	Sept 2019	Sept 2021	22,63	81 014	–	–	**81 014**
				243 040	–	–	**243 040**

Forfeitable shares – Old Scheme (Discontinued in 2015)

	Date from which exercisable	Number entitled to at 1 July 2016	Number granted during the year	Number redeemed or taken up during the year	Number forfeited during the year[1]	**Number entitled to at 30 June 2017**
HJ Verster	Sept 2016	75 000	–	–	75 000	**–**
	Mar 2017	232 019	–	–	232 019	**–**
	Sept 2018	768 400	–	–	–	**768 400**
		1 075 419	–	–	307 019	**768 400**
JJA Mashaba	Sept 2016	50 000	–	–	50 000	**–**
	Aug 2017	143 367	–	–	–	**143 367**
	Sept 2018	372 800	–	–	–	**372 800**
		566 167	–	–	50 000	**516 167**
AH Macartney	Sept 2017	44 189	–	–	–	**44 189**
	Sept 2018	391 000	–	–	–	**391 000**
		435 189	–	–	–	**435 189**

[1] *In light of the performance condition not being satisfied, shares reported hereunder were automatically forfeited in terms of the scheme rules and the endorsement of the Remuneration and Nomination Committee.*

Cash-Settled Conditional Shares ("CSPs")

	Date from which exercisable	Number entitled to at 1 July 2016	Number granted during the year[1]	Number redeemed or taken up during the year	Number forfeited during the year	**Number entitled to at 30 June 2017**
HJ Verster	Aug 2017	–	33 310	–	–	**33 310**
	Aug 2018	–	33 310	–	–	**33 310**
	Aug 2019	–	33 310	–	–	**33 310**
	Sept 2019	–	2 708 333	–	–	**2 708 333**
		–	2 808 263	–	–	**2 808 263**
JJA Mashaba	Aug 2017	–	17 544	–	–	**17 544**
	Aug 2018	–	17 544	–	–	**17 544**
	Aug 2019	–	17 544	–	–	**17 544**
	Sept 2019	–	1 000 000	–	–	**1 000 000**
		–	1 052 632	–	–	**1 052 632**
AH Macartney	Aug 2017	–	16 374	–	–	**16 374**
	Aug 2018	–	16 374	–	–	**16 374**
	Aug 2019	–	16 375	–	–	**16 375**
	Sept 2019	–	400 000	–	–	**400 000**
		–	449 123	–	–	**449 123**

[1] *Cash Settled Conditional Shares awarded in lieu of the annual LTI Aveng full shares in light of Aveng being in an extended prohibited, cautionary or closed period.*

47. DIRECTORS' EMOLUMENTS AND INTERESTS continued

Prescribed officers

The Companies Act 71 of 2008 (as amended) of South Africa, defines a prescribed officer as a person who exercises general executive control over management of the whole, or a significant portion of, the business and activities of the Group; or regularly participates to a material degree in the exercise of general executive control over and management of the whole, or a significant portion, of the business and activities of the Group. It excludes directors and does not refer, in any way, to title held by the person, rather the functions which they perform. The Board has identified the prescribed officers of the Group.

	Year	Guaranteed earnings[1] R'000	Salary[2] R'000	Retirement fund[3] R'000	Other payments R'000	Short-term incentive (STI)[4] R'000	Medium-term incentive (MTI)[5] R'000	Total R'000
LS Letsoalo	**2017**	**3 400**	**3 162**	**238**	**–**	**–**	**302**	**3 702**
	2016	3 390	3 152	238	–	–	347	3 737
HA Aucamp	**2017**	**3 475**	**3 308**	**167**	**–**	**–**	**–**	**3 475**
	2016	3 406	3 059	347	1 400	480	127	5 413
S White	**2017**	**3 587**	**3 335**	**252**	**–**	**–**	**428**	**4 015**
	2016	3 368	3 130	238	1 400	300	496	5 564
C Botha	**2017**	**3 591**	**3 410**	**181**	**–**	**–**	**–**	**3 591**
	2016	3 296	3 105	191	2 300	390	–	5 986
S Cummins (AUS)[6]	**2017**	**1 218**	**1 064**	**154**	**400**	**–**	**–**	**1 618**
	2016	960	838	122	–	300	–	1 260

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

[2] *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.*

[3] *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 has resulted in a commensurate increase in basic salary.*

[4] *The Aveng Remuneration and Nomination Committee exercised its discretion to defer the award of STI bonuses for the 2016 / 2017 financial year.*

[5] *MTI paid in March 2017 in respect of previous years' awards. The scheme was discontinued from the 2015 / 2016 financial year.*

[6] *S Cummins appointed 14 September 2015; earnings disclosed in AUD'000. Salary amount includes vehicle benefits allowance. Other payment related to appointment award. The appointment is paid in three equal tranches, this being the first tranche. The remaining tranches will be paid in July 2017 and July 2018.*

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48. RISK MANAGEMENT

The Group is exposed to currency, credit, liquidity and interest rate risks. In order to manage these risks, the Group may enter into transactions which make use of financial instruments. The Group has developed a risk management process to facilitate, control and monitor these risks. This process includes formal documentation of policies, including limits, controls and reporting structures. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk and credit risk, use of derivative financial instruments and non-derivative financial instruments, and investments of excess liquidity.

The Executive Committee is responsible for risk management activities within the Group. The executive meets regularly to review market trends and develop strategies.

Group treasury is responsible for monitoring currency, interest rate and liquidity risk under policies approved by the Board of directors. Group Treasury identifies, evaluates and hedges financial risks in close cooperation with the Group's operating groups.

The Group actively monitors the following risks:

48.1 Capital risk management

The primary objective of the Group's capital management policy is to ensure that the Group maintains a strong credit rating and healthy capital ratios, such as return on invested capital ("ROIC"), debt to equity and return on equity, in order to support its business.

The Group manages its capital structure and makes adjustments to it in response to changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the years ended 30 June 2017 and 30 June 2016.

The Group includes within its net cash position, cash and bank balances less borrowings and other liabilities.

Capital includes equity attributable to the equity holders of the parent of R6,1 billion (2016: R13,5 billion).

The Group's strategy is to achieve the ROIC ratio at a minimum of 15%. The ROIC ratio as at 30 June 2017 and 2016 was as follows:

	2017 Rm	2016* Rm
Net operating (loss) / earnings less adjusted tax	**(5 897)**	112
Invested capital	**8 959**	16 623
ROIC ratio (%)	**(65,8)**	0,7

48.2 Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet a financial commitment in any location or currency. The Group manages its liquidity risk through its treasury function. Cash flow forecasting is performed by the operating units of the Group and consolidated by Group Treasury.

At year-end, the Group had two revolving credit facilities, R500 million and R300 million from Absa and Nedbank respectively. Both of these were undrawn at year-end.

During July 2014, the Company issued convertible bonds denominated in South African Rand with a nominal value of R2 billion and a coupon of 7,25% with the bond repayment date being five years from the issue date at par plus interest or convertible into shares.

As a result of the issuance of the convertible bond, the Group extended its debt repayment profile.

The extension of the Group's debt repayment profile and the undrawn facilities at year-end have resulted in the Group's exposure to liquidity risk being decreased. Maturity analysis for derivative and non-derivative financial liabilities has been included (refer to *note 48.7: Borrowing capacity*).

48. RISK MANAGEMENT continued

48.3 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's exposure to interest rate risk relates primarily to the Group's debt obligations with variable interest rates, which excludes the Group's convertible bond which is repayable semi-annually at a fixed interest rate and the asset based finance which are repayable at a fixed interest rate in quarterly instalments.

The Group's policy is to manage interest rate risk through both fixed and variable, long- and short-term instruments.

Deposits and cash balances all carry interest at rates that vary in response to prevailing market rates in the respective geographical areas of the Group's operations.

No financial instruments were entered into to mitigate the risk of interest rates.

Interest rate sensitivity

The following table illustrates the effect on the Group's earnings and equity, all other factors remaining constant, of changes in the variable interest liabilities at 30 June:

	2017 Rm	2016 Rm
Total variable borrowings	**817**	1 064
Effect on earnings after taxation – plus 50 basis points increase	**(3)**	(4)
Effect on earnings after taxation – minus 50 basis points increase	**3**	4

48.4 Credit risk

The Group's material exposure to credit risk is in its receivables (refer to *note 18: Trade and other receivables*), deposits and cash balances (refer to *note 20: Cash and bank balances*), and amounts due from contract customers (refer to *note 17: Amounts due from contract customers*).

Deposits and cash balances are all kept at financial institutions with a high credit rating, as determined by credit rating agencies within a credit limit policy which is subject to regular review.

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to contractual terms and credit verification procedures.

Notes to the consolidated financial statements continued

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48. RISK MANAGEMENT continued

48.4 Credit risk continued

48.4.1 Trade and other receivables

Ageing analysis of trade receivables

	<30 days Rm	30 to 60 days Rm	60 to 90 days Rm	Past due and not impaired* Rm	Past due and impaired* Rm	Total Rm
2017						
Trade receivables	**1 078**	**70**	**59**	**103**	**30**	**1 340**
Provision for doubtful debts	**–**	**–**	**–**	**–**	**(30)**	**(30)**
Net book value	**1 078**	**70**	**59**	**103**	**–**	**1 310**

	<30 days Rm	30 to 60 days Rm	60 to 90 days Rm	Past due and not impaired* Rm	Past due and impaired* Rm	Total Rm
2016						
Trade receivables	970	111	71	157	42	1 351
Provision for doubtful debts	–	–	–	–	(42)	(42)
Net book value	970	111	71	157	–	1 309

* *Represents accounts past due based on due date in accordance with the contractual payment terms.*

Trade and other receivables impaired

As at 30 June 2017, trade receivables with a nominal value of R30 million (2016: R42 million) were provided for in an allowance account.

The maximum exposure to credit risk in relation to trade and other receivables:

	2017 Rm	2016 Rm
Trade and other receivables	**1 712**	1 845
Taxation receivable	**61**	–
Allowance for impairment of trade and other receivables	**(30)**	(42)
	1 743	1 803
Reconciliation of provision for impairment of trade and other receivables		
Opening balance	**42**	49
Raised during the year	**8**	34
Utilised	**(20)**	(41)
	30	42

48. RISK MANAGEMENT continued

48.4 Credit risk continued

48.4.1 Trade and other receivables *continued*

Trade and other receivables impaired continued

	Total past due not impaired Rm	Past due not impaired* Past due up to 1 month Rm	Past due 1 – 2 months Rm	Past due 2 – 3 months Rm	Past due 3 – 4 months Rm	Past due older than 4 months Rm
2017						
Trade receivables	**103**	**24**	**9**	**4**	**64**	**2**
2016						
Trade receivables	157	29	34	24	70	–

* *Represents accounts past due based on due date in accordance with the contractual payment terms.*

48.4.2 Amounts due from / (to) contract customers

The maximum exposure to credit risk in relation to amounts due from / (to) contract customers is equal to the carrying value as presented in *note 17: Amounts due from / (to) contract customers.*

The ageing of contract and retention receivables and related provisions as at 30 June is as follows:

	<30 days Rm	30 to 60 days Rm	60 to 90 days Rm	Past due not impaired* Rm	Past due and impaired* Rm	Total Rm
2017						
Contract and retention receivables	**3 155**	**47**	**150**	**57**	**2**	**3 411**
Provision for contract receivables	**–**	**–**	**–**	**–**	**(2)**	**(2)**
Net book value	**3 155**	**47**	**150**	**57**	**–**	**3 409**
2016						
Contract and retention receivables	2 809	64	147	250	2	3 272
Provision for contract receivables	–	–	–	–	(2)	(2)
Net book value	2 809	64	147	250	–	3 270

* *Represents accounts past due based on due date in accordance with contractual payment terms.*

Notes to the consolidated financial statements continued

for the year ended 30 June 2017

48. RISK MANAGEMENT continued

48.4 Credit risk continued

48.4.2 Amounts due from / (to) contract customers *continued*

Analysis of past due accounts

Included in contract receivables are amounts that are past due but not impaired, these have been adequately assessed for impairment.

		Past due not impaired*				
	Total past due not impaired Rm	Past due up to 1 month Rm	Past due 1 – 2 months Rm	Past due 2 – 3 months Rm	Past due 3 – 4 months Rm	Past due older than 4 months Rm
2017						
Contract and retention receivables	**57**	**10**	**2**	**5**	**1**	**39**
2016						
Contract and retention receivables	250	20	144	2	–	84

* *Represents accounts past due based on due date in accordance with contractual payment terms.*

	2017 Rm	2016 Rm
Reconciliation of provision for impairment of contract receivables		
Opening balance	**2**	*
Raised during the year	**–**	2
Utilised	**–**	–
	2	2

* *Amounts less than R1 million.*

	Uncertified claims and variations Rm	Contract contin-gencies Rm	Contract receivables Rm	Provision for contract receivables Rm	Retention receivables Rm	Total Rm
2017						
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

48. RISK MANAGEMENT continued

48.4 Credit risk continued

48.4.3 Credit risk mitigation and collateral

Where appropriate, the Group obtains collateral and uses first loss trade credit insurance to mitigate risk.

The Group has the following collateral cover its contract and retention receivables:

- The Group has obtained security for payment in the form of a right to receive shares in the holding company of the operational mining entity against which a claim has been instituted. It is, however, unlikely that the shares in the holding company would be substituted for the claim against the operating entity.

The Group has credit risk mitigating policies in place for all its operating segments. Due to the significant credit risk associated with contract and retention receivables, it is the Group's policy to obtain unassignable security by bank guarantees or insurance bonds on large projects returnable on the expiration of the defect liability period or practical completion, where part security is returnable. The security is callable in relation to the debt under construction contracts.

Credit risk mitigating measures include builder's liens. The Group has right of retention over the constructed, enhanced or repaired building or structure (site) or portion thereof by means of retaining physical control of the site to secure payment of the contract price. The builder's lien is not waived and remains in effect until the completion of the contract or creditworthiness and payment record of the contracting party has been established. A builder's lien may be waived in lieu of a bank guarantee in accordance with the Group's commercial risk framework. The builder's lien in respect of claims is not waived and remains in effect until such time as the Group's claim has been satisfied or the Group has been provided with appropriate alternative security in respect of its claim.

A holding company guarantee is obtained if required by the underlying contract from the contracting party's holding company. The Group may in certain instances institute a right to suspend the contract as recourse for non-payment in accordance with the Group's commercial risk framework. Where a suspension applies, it provides for demobilisation, mobilisation and delay costs associated with the extension of time.

48.5 Foreign exchange risk

The Group has limited transactional currency exposures. Such exposure arises from sales or purchases by a division, subsidiary, associate or joint arrangements (operating unit) in currencies other than the unit's functional currency. An insignificant amount of the Group's sales is denominated in currencies other than the functional currency of the operating unit making the sale, and the majority of costs are denominated in the unit's functional currency.

The Group's policy is to cover all foreign transactions currency exposures, unless a natural hedge exists between the related payable and receivable in that operating unit.

Derivative instruments comprise forward exchange contracts and are entered into in the normal course of business to manage foreign currency. Derivative instruments entered into in terms of risk management strategies are defined as economic hedging transactions and such instruments are accounted for in terms of the Group's accounting policies. Refer below and *note 48.6: Foreign currency risk* for the Group's maximum exposure and significant concentrations of currency risk.

Notes to the consolidated financial statements continued

for the year ended 30 June 2017

48. RISK MANAGEMENT continued

48.5 Foreign exchange risk continued

The following table demonstrates the sensitivity to a reasonably possible change in the closing rate of material currencies with which the Group operates, all other variables held constant, on the Group's earnings before taxation (due to changes in the fair value of foreign denominated monetary assets and liabilities at year-end).

Material currencies were determined based on exposure and volume of transactions.

	Closing exchange rate at 30 June	Change in year-end rate Increase of 5%	Change in year-end rate Decrease of 5%	Effect of an increase of 5% (Rm)	Effect of a decrease of 5% (Rm)
2017					
Australian Dollar (AUD)	**10,05**	**10,56**	**9,55**	**(54)**	**54**
United States Dollar (USD)	**13,07**	**13,73**	**12,42**	**1**	**(1)**
Euro (EUR)	**14,94**	**15,69**	**14,19**	**3**	**(3)**
Effect on earnings before taxation*				**(50)**	**(50)**
2016					
Australian Dollar (AUD)	10,97	11,52	10,42	(35)	35
United States Dollar (USD)	14,73	15,47	13,99	(7)	7
Euro (EUR)	16,36	17,18	15,54	2	(2)
Effect on earnings before taxation*				(40)	40

* *Represents the changes in the fair value of foreign denominated trade and other payables and trade and other receivables at year-end.*

48.6 Foreign currency risk

The carrying value by functional currency of the Group's monetary assets and liabilities are as follows:

	Notes	South African Rand Rm	Rand equivalent amount (Rm) USD	AUD*	EUR	Other	Total
2017							
Monetary assets as per the statement of financial position							
Derivative instruments – current	16	**2**	**–**	**–**	**–**	**–**	**2**
Derivative instruments – non-current	16	**–**	**–**	**–**	**–**	**–**	**–**
Amounts due from contract customers – current	17	**974**	**165**	**2 373**	**–**	**200**	**3 712**
Amounts due from contract customers – non-current	17	**100**	**–**	**656**	**–**	**–**	**756**
Trade and other receivables	18	**1 326**	**105**	**88**	**3**	**318**	**1 840**
Cash and bank balances	20	**373**	**228**	**1 238**	**5**	**152**	**1 996**
		2 775	**498**	**4 355**	**8**	**670**	**8 306**
Monetary liabilities as per the statement of financial position							
Borrowings and other liabilities – current	23	**196**	**44**	**808**	**–**	**–**	**1 048**
Borrowings and other liabilities – non-current	23	**1 905**	**–**	**113**	**–**	**–**	**2 018**
Payables other than contract-related – current	24	**154**	**–**	**–**	**–**	**–**	**154**
Employee-related payables	26	**312**	**100**	**298**	**–**	**103**	**813**
Derivative instruments	16	**17**	**–**	**–**	**–**	**–**	**17**
Trade and other payables	25	**3 130**	**218**	**2 304**	**6**	**251**	**5 909**
Amounts due to contract customers	17	**481**	**–**	**853**	**–**	**17**	**1 351**
		6 195	**362**	**4 376**	**6**	**371**	**11 310**
Net exposure		**(3 420)**	**136**	**(21)**	**2**	**299**	**(3 004)**

* *This amount includes exposure to NZD and other currencies within the Australasia and Southeast Asia market.*

48. RISK MANAGEMENT continued

48.6 Foreign currency risk continued

	Notes	South African Rand Rm	USD	AUD*	EUR	Other	Total
			Rand equivalent amount (Rm)				
2016							
Monetary assets as per the statement of financial position							
Derivative instruments – current	16	20	–	–	–	–	20
Derivative instruments – non-current	16	–	–	–	–	–	–
Amounts due from contract customers – current	17	1 876	27	6 007	–	137	8 047
Amounts due from contract customers – non-current	17	252	–	1 165	–	–	1 417
Trade and other receivables	18	1 407	122	98	3	428	2 058
Cash and bank balances	20	674	96	1 444	7	229	2 450
		4 229	245	8 714	10	794	13 992
Monetary liabilities as per the statement of financial position							
Borrowings and other liabilities – current	23	201	140	873	–	–	1 214
Borrowings and other liabilities – non-current	23	1 736	–	34	–	–	1 770
Payables other than contract-related – current	24	–	–	–	–	–	–
Employee-related payables	26	464	3	372	2	97	938
Derivative instruments	16	27	–	–	–	–	27
Trade and other payables	25	3 456	43	2 212	1	174	5 886
Amounts due to contract customers	17	539	–	753	–	30	1 322
		6 423	186	4 244	3	301	11 157
Net exposure		(2 194)	59	4 470	7	493	2 835

** This amount includes exposure to NZD and other currencies within the Australasia and Southeast Asia market.*

Notes to the consolidated financial statements continued

for the year ended 30 June 2017

48. RISK MANAGEMENT continued

48.7 Borrowing capacity

The Group's borrowing capacity is set out in accordance with the terms of the Company's memorandum of incorporation.

	2017 Rm	2016 Rm
The Group had the following undrawn facilities:		
Total borrowing facilities (includes bank overdraft facility of R556 million (2016: R435 million)	**4 421**	4 919
Current utilisation	**(3 066)**	(2 984)
Borrowing facilities available	**1 355**	1 935

Maturity profile of financial instruments

The maturity profile of the recognised financial instruments are summarised below. These profiles represent the discounted cash flows that are expected to occur in the future.

Financial instruments	**Less than one year Rm**	**One to five years Rm**	**Beyond five years Rm**	**Total Rm**
2017				
Non-derivative financial liabilities				
Interest-bearing borrowings	**1 117**	**1 949**	**434**	**3 500**
Amounts due to contract customers	**1 351**	**–**	**–**	**1 351**
Trade and other payables	**5 909**	**–**	**–**	**5 909**
Derivative financial liabilities				
Forward exchange contracts – Outflow	**17**	**–**	**–**	**17**
	8 394	**1 949**	**434**	**10 777**

	Less than one year Rm	One to five years Rm	Beyond five years Rm	Total Rm
2016				
Non-derivative financial liabilities				
Interest-bearing borrowings	1 349	1 957	–	3 306
Amounts due to contract customers	1 322	–	–	1 322
Trade and other payables	5 886	–	–	5 886
Derivative financial liabilities				
Forward exchange contracts – Outflow	27	–	–	27
	8 584	1 957	–	10 541

49. FAIR VALUE OF ASSETS AND LIABILITIES

The Group measures the following financial instruments at fair value:

- Infrastructure investments; and
- Forward exchange contracts.

Infrastructure investments comprises the following:

- N3 Toll Concession (RF) Proprietary Limited;*
- Blue Falcon 140 Trading Proprietary Limited;*
- Windfall 59 Properties Proprietary Limited;*
- Imvelo Concession Company Proprietary Limited;
- Firefly Investments 238 Proprietary Limited;
- Dimopoint Proprietary Limited; and
- GoldlinQ Holdings.*

Except for Dimopoint and Firefly, the methodology, valuation parameters and assumptions for all other infrastructure investments have remained unchanged since 30 June 2016. For more detail refer to the 30 June 2016 consolidated financial statements available on the Group's website.

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 (2016: R251 million) of unrealised gains have been recognised during the current financial year.

* *Investments were transferred to held-for-sale and sold in the current year.*

Infrastructure investments

(i) Firefly Investments 238 Proprietary Limited ("Firefly")

Methodology

The value of the Group's share in Firefly was determined on the basis of the long term contractual operations and maintenance fees charged by Firefly. The fair value was determined by performing a discounted cash flow valuation over a contract term of approximately 20 years.

Valuation parameters and assumptions

The following parameters and assumptions were considered in arriving at the valuation:

- In estimating the fair value of Firefly, a discount rate of 15% was applied;
- Free cash flows based on the underlying long-term contractual revenue streams and operating cost forecasts; and
- Long-term revenue and cost indexation (ZAR based) of 5,7% and 6% respectively.

(ii) Dimopoint Proprietary Limited ("Dimopoint")

Methodology

The value of the Group's share in Dimopoint was determined on the basis of the underlying long-term contractual rental streams. The fair value was determined based on the underlying investment property portfolio. Methodologies include the market comparable approach that reflects recent transaction prices for similar properties and discounted cash flows. The valuation takes into consideration the selling price, escalations per year, rental income escalation per year and risk-adjusted discount rates.

Valuation parameters and assumptions

The following parameters and assumptions were considered in arriving at the valuation:

- In estimating the fair value of the properties, the highest and best use of the properties is taken into account;
- Free cash flows based on the underlying long-term contractual rental streams; and
- Market comparable yields applicable to the underlying investment property portfolio.

Foreign exchange contracts ("FEC") liabilities

Valuation methodology

Fair value of FECs is determined using mark-to-market rates. Market prices are based on actively traded similar contracts and is obtained from the financial institution with which the contracts are held.

Notes to the consolidated financial statements continued

for the year ended 30 June 2017

49. FAIR VALUE OF ASSETS AND LIABILITIES continued

Fair value hierarchy

The table below shows the Group's fair value hierarchy and carrying amounts of assets and liabilities:

	Carrying amounts Rm	Fair value Rm	Valuation reference observable prices Level 1 Rm	Valuation based on observable inputs Level 2 Rm	Valuation based on unobservable inputs Level 3 Rm
2017					
Assets and liabilities recognised at fair value					
Assets					
Infrastructure investments	**265**	**265**	**–**	**–**	**265**
Infrastructure investments (held-for-sale)	**4**	**4**	**–**	**–**	**4**
Forward exchange contracts ("FECs")	**2**	**2**	**–**	**2**	**–**
Liabilities					
Forward exchange contracts ("FECs")	**17**	**17**	**–**	**17**	**–**

	Carrying amounts Rm	Fair value Rm	Valuation reference observable prices Level 1 Rm	Valuation based on observable inputs Level 2 Rm	Valuation based on unobservable inputs Level 3 Rm
2016					
Assets and liabilities recognised at fair value					
Assets					
Infrastructure investments	177	177	–	–	177
Infrastructure investments (held-for-sale)	944	944	–	–	944
Forward exchange contracts ("FECs")	20	20	–	20	–
Liabilities					
Forward exchange contracts ("FECs")	27	27	–	27	–

The Group uses Level 2 valuation techniques to measure foreign exchange contract and Level 3 valuation techniques to measure infrastructure investments. Valuation techniques used are appropriate in the circumstances and for which sufficient data was available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

There were no transfers between the different levels during the year.

Total gains and losses included in the statement of comprehensive earnings attributable to changes in unrealised gains or losses

There have been no gains and losses recognised attributable to changes in unrealised gains or losses during the year.

49. FAIR VALUE OF ASSETS AND LIABILITIES continued

Sensitivity analysis: Financial assets valuations, using observable and unobservable inputs

The following table shows the sensitivity of significant unobservable inputs used in measuring the fair value of infrastructure investments:

	Significant unobservable input %	Reasonably possible changes to significant unobservable inputs %	Potential effect recorded directly in profit and loss Increase Rm	Potential effect recorded directly in profit and loss Decrease Rm
Infrastructure investments				
Risk-adjusted discount rate:				
– Imvelo Concessions Company Proprietary Limited	**17,4**	**0,5**	**(1)**	**2**
– Firefly Investments 238 Proprietary Limited	**14,5**	**0,5**	**<(1)**	**<1**
– Dimopoint Proprietary Limited	**15,0**	**0,5**	**(12)**	**11**

50. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

In accordance with *IAS 32*, the Group reports financial assets and financial liabilities, on a net basis on the statement of financial position only if there is a legally enforceable right to set off the recognised amounts and there is intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. Where relevant the Group reports derivative financial instruments and other financial assets and financial liabilities on a net basis.

Notes to the consolidated financial statements continued

for the year ended 30 June 2017

50. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES continued

The following table shows the impact of netting arrangements on the statement of financial position for recognised financial assets and financial liabilities that are reported net on the statement of financial position and those derivative financial instruments and other financial assets and financial liabilities that are subject to enforceable master netting arrangements or similar agreements which did not qualify for presentation on a net basis. The table also shows potential netting not recognised on the statement of financial position that results from arrangements that do not meet all the *IAS 32* netting criteria, because there is no intention to net settle or realise simultaneously, and related financial collateral that mitigates credit risk.

The net amounts presented are not intended to represent the Group's actual credit exposure as a variety of credit mitigation strategies are employed in addition to netting and collateral arrangements.

	Amounts subject to enforceable netting arrangements Effects of netting on statement of financial position		
	Gross amounts Rm	Amounts set off Rm	Net amounts reported on the statement of financial position Rm
30 June 2017			
Derivative instruments	**2**	**–**	**2**
Cash and bank balances*	**410**	**–**	**410**
Total assets	**412**	**–**	**412**
Derivative instruments	**(17)**	**–**	**(17)**
Total liabilities	**(17)**	**–**	**(17)**
30 June 2016			
Derivative instruments	20	–	20
Cash and bank balances*	652	–	652
Total assets	672	–	672
Derivative instruments	(27)	–	(27)
Total liabilities	(27)	–	(27)

* *Relates to the offsetting of transactional banking counterparty's balances, namely the offsetting of notional bank overdrafts. The balances have been settled against the current accounts.*

** *Financial collateral excludes over collateralisation and amounts, which are measured at fair value and are in excess of the net statement of financial position exposure.*

*** *Total per statement of financial position is the sum of "net amounts reported on the statement of financial position" which are subject to enforceable netting arrangements and "amounts not subject to enforceable netting arrangements".*

Amounts subject to enforceable netting arrangements Related amounts not set off						
Offsetting financial instruments Rm	**Financial collateral** Rm**	**Net amount Rm**	**Amounts not subject to enforceable netting arrange-ments Rm**	**Total as per statement of financial position*** Rm**	**Current Rm**	**Non-current Rm**
–	**–**	**2**	**–**	**2**	**2**	**–**
–	**–**	**410**	**1 586**	**1 996**	**1 996**	**–**
–	**–**	**412**	**1 586**	**1 998**	**1 998**	**–**
–	**–**	**(17)**	**–**	**(17)**	**(17)**	**–**
–	**–**	**(17)**	**–**	**(17)**	**(17)**	**–**
–	–	20	–	20	20	–
–	–	652	1 798	2 450	2 450	–
–	–	672	1 798	2 470	2 470	–
–	–	(27)	–	(27)	(27)	–
–	–	(27)	–	(27)	(27)	–

Notes to the consolidated financial statements continued

for the year ended 30 June 2017

51. 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 23*. 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 but has been provided with adequate liquidity to execute its business plan.

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 amongst 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 23*.
- 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 interest.

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

51. EVENTS AFTER THE REPORTING PERIOD AND PENDING TRANSACTIONS continued

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 (Pty) 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.

52. RELATED PARTIES

During the period the Group, in the ordinary course of business, entered into various sale and purchase transactions with entities which are equity accounted for.

The Group also had transactions and balances with associates, joint ventures, key management personnel, entities controlled by key management personnel and principal shareholders. These are detailed below.

There have been significant changes to the nature of related party transactions since 30 June 2016, which are in relation to the sale of Aveng Africa's 70% equity stake sold effective 1 January 2017 in Aveng Steeledale to Kutana Steel Proprietary Limited, retaining 30% equity. Subsequent to year end a proposed disposal of a 51% beneficial interest in the Grinaker-LTA business, owned and operated by Aveng Africa Proprietary Limited to Kutana Construction Proprietary Limited.

Refer to transactions with key management disclosed in *note 47: Directors' emoluments and interests*.

The Group had the following significant related party balances and transactions during the reporting period:

Balances with associates, joint ventures, joint operations, key management personnel and entities controlled by key management personnel

Balances between the Group and its subsidiaries have been eliminated on consolidation and are not disclosed.

	2017 Rm	2016 Rm
Associates and joint ventures		
Loans advanced – associates and joint ventures	**202**	65
Loans advanced – infrastructure investments	**–**	65
Trade and other receivables – associates and joint ventures	**18**	18
Trade and other payables – associates and joint ventures	**(1)**	(1)
	219	147
Parent company guarantees (ZARm)	**1 417**	1 489
Parent company guarantees (AUDm)	**4 340**	4 246

The Group had no balances with key management personnel or balances with entities controlled by key management personnel during the year under review.

Notes to the consolidated financial statements continued

for the year ended 30 June 2017

52. RELATED PARTIES continued

Transactions with associates, joint ventures, joint operations, key management personnel and entities controlled by key management personnel

Transactions between the Group and its subsidiaries have been eliminated on consolidation and are not disclosed.

	2017 Rm	2016 Rm
Interest paid to / (received from) related parties	**(13)**	(46)
Management fees received from related parties	**(1)**	–
Rent paid to / (received from) related parties	**(6)**	–
	(20)	(46)

The Group had no transactions with key management personnel or transactions with entities controlled by key management personnel during the year under review.

53. STRUCTURED ENTITIES

53.1 Nature and extent of significant restrictions relating to investments in subsidiaries

There are significant restrictions on the ability of the Group to require distributions of capital, access the assets, or repay the liabilities of members of its group arising from statutory, regulatory and contractual requirements and from the protective rights of non-controlling interests.

Statutory requirements

The Group's subsidiaries are subject to statutory requirements to not make distributions of capital and unrealised profits so as to maintain solvency. These requirements restrict the ability of subsidiaries to make remittances of dividends to Aveng Limited, the ultimate parent, except in the event of a legal capital reduction or liquidation.

53.2 Consolidated structured entities

During the reporting period the Group provided financial or other support to the following consolidated structured entities despite not being contractually obliged to do so:

Name	Nature of support	Reason for providing support	2017 Support provided Rm	2016 Support provided Rm
Qakazana Investment Holdings* Proprietary Limited	Loans by Group companies	Was to facilitate the BEE transaction	**–**	1 300

** The loan relating to Qakazana was written off.*

The Group has consolidated Aveng Limited Share Purchase Trust and Qakazana Investment Holdings Proprietary Limited since 2004.

The Group does not intend to provide financial or other support to any of the Group's consolidated structured entities.

53.3 Unconsolidated structured entities

The level of risk that the Group is exposed to is determined by the nature and purpose of it holding an interest in the entity. Information about such entities has been aggregated according to the purpose for which the entity was established.

	2017 Empowerment vehicles Rm	2017 Structured investment vehicles Rm	Total Rm
Assets			
Investment in subsidiaries	**–**	**50**	**50**
Interest receivable	**–**	**–**	**–**
Cash and bank balances	**–**	**2**	**2**
	–	**52**	**52**
Maximum exposure to loss**	**–**	**52**	**52**

*** The Group's maximum exposure to loss can be calculated as the sum of its assets recognised in the statement of financial position.*

53. STRUCTURED ENTITIES continued

53.3 Unconsolidated structured entities continued

	2016 Empowerment vehicles Rm	2016 Structured investment vehicles Rm	Total Rm
Assets			
Investment in subsidiaries	–	30	30
Cash and bank balances	3	36	39
	3	66	69
Liabilities			
Borrowings and other liabilities – internal**	*	26	26
	*	26	26
Undrawn liquidity facilities (notional value)* **	–	–	–
Maximum exposure to loss****	3	66	69

* *Less than R1 million.*
** *The loan from the Group is unsecured, interest-free and has no fixed terms of repayment.*
*** *There are no liquidity arrangements, guarantees or other commitments with third parties that may affect the fair value or risk of the entity's interests in unconsolidated structured entities.*
**** *The Group's maximum exposure to loss can be calculated as the sum of its assets recognised in the statement of financial position and its unrecognised contractual commitments to provide further finance.*

Financial support provided or to be provided to unconsolidated structured entities

As at the reporting date, the Group has no intention to provide further financial assistance or other support to any of the unconsolidated structured entities.

53.4 Sponsored entities

Other than the unconsolidated structured entities in which the Group has an interest, it does not sponsor any structured entities nor earns any income from its involvement in the unconsolidated structured entities which it sponsors.

Notes to the consolidated financial statements continued

for the year ended 30 June 2017

54. GROUP OPERATING ENTITIES

Name	Country	Aveng Group effective consolidation %
Subsidiaries and consolidated structured entities		
ACP Investment Managers Proprietary Limited	South Africa	100
Aimykeet Proprietary Limited	Australia	100
Andersen & Hurley Instruments (SA) Proprietary Limited	South Africa	100
Atval Proprietary Limited	South Africa	100
Aveng Proprietary Limited	Malawi	100
Aveng Africa Lesotho Proprietary Limited	Lesotho	100
Aveng Africa Proprietary Limited	South Africa	100
Aveng Australia (GCRT) Proprietary Limited	Australia	100
Aveng Australia Holdings Proprietary Limited	Australia	100
Aveng Australia Investments Proprietary Limited	Australia	100
Aveng Concessions (Mauritius) Road Limited	Mauritius	100
Aveng Extractive Technologies Proprietary Limited	South Africa	51
Aveng Ghana Limited (Grinaker-LTA (Ghana) Limited)	Ghana	100
Aveng Grinaker-LTA Holdings Proprietary Limited	South Africa	100
Aveng Management Company Proprietary Limited	South Africa	100
Aveng Mining DRC Société à Responsabilité Limitée	Democratic Republic of Congo	100
Aveng Moolmans Burkina Faso SA	Burkina Faso	100
Aveng Moolmans Proprietary Limited	South Africa	100
Aveng Moolmans Mauritius Limited	Mauritius	100
Aveng Mozambique Limitada	Mozambique	100
Aveng Namibia Proprietary Limited	Namibia	100
Aveng Rail Australia Proprietary Limited	Australia	100
Aveng Swazi Proprietary Limited	Swaziland	100
Aveng Tanzania Limited	Tanzania	100
Aveng Trident Steel Holding Proprietary Limited	South Africa	100
Aveng Trident Steel Proprietary Limited	South Africa	100
Aveng Water Proprietary Limited	South Africa	100
Aveng Water Australia Proprietary Limited	Australia	100
Aveng Water Treatment Proprietary Limited	Namibia	100
Aveng Zimbabwe (Private) Limited	Zimbabwe	100
Built Environs Proprietary Limited	Australia	100
Built Environs Holdings Proprietary Limited	Australia	100
Built Environs Qld Proprietary Limited	Australia	100
Built Environs WA Proprietary Limited	Australia	100
CMM Consultants Proprietary Limited	South Africa	100
Consorcio Aveng-Mas Errazuriz Société Anonyme	Chile	60
Dynamic Fluid Control Proprietary Limited	South Africa	100
Dynamic Fluid Control Water Proprietary Limited	South Africa	100
E+PC Engineering & Projects Company (Zambia) Limited	Zambia	100
E+PC Engineering & Projects Company Australia Proprietary Limited	Australia	100
EESTech Africa Proprietary Limited	South Africa	51
Fort Concrete Holdings (Private) Limited	Zimbabwe	100

54. GROUP OPERATING ENTITIES continued

Name	Country	Aveng Group effective consolidation %
Subsidiaries and consolidated structured entities continued		
Fort Concrete Central (Private) Limited	Zimbabwe	100
Fort Concrete Koala (Private) Limited	Zimbabwe	100
Grinaker-LTA (Botswana) Proprietary Limited	Botswana	100
Grinaker-LTA Construction (Private) Limited	Zimbabwe	100
Grinaker-LTA Construction (Zambia) Limited	Zambia	100
Grinaker-LTA Construction and Development Proprietary Limited	South Africa	100
Grinaker-LTA Engineering and Mining Services Proprietary Limited	South Africa	100
Grinaker-LTA Intellectual Property Proprietary Limited	South Africa	100
Grinaker-LTA Zimbabwe Limited	Zimbabwe	100
Grinaker-LTA Proprietary Limited (formerly E+PC Engineering and Projects Company Limited)	South Africa	100
Grinaker Pieterse Housing Proprietary Limited	South Africa	100
Grunwald Construction Proprietary Limited	Botswana	100
Grinaker-LTA International Construction Limited	Mauritius	100
Grinaker-LTA International Holdings Limited	Mauritius	100
Grinaker-LTA Properties Proprietary Limited	South Africa	100
Hylekite Proprietary Limited	Australia	100
IHIH (Private) Limited	Zimbabwe	100
Ikhule construction Incubator Proprietary Limited (Vexicom Proprietary Limited)	South Africa	100
Infraset Zambia Limited	Zambia	100
Karibib Mining and Construction Company (Namibia) Limited	Namibia	100
KNM Grinaker-LTA Proprietary Limited	South Africa	100
Koala Park Estates (Private) Limited	Zimbabwe	100
LTA Construction Kenya Limited	Kenya	100
LTA Mali Société Anonyme	Mali	100
Macintosh Property Holding Company Proprietary Limited	South Africa	100
McConnell Dowell (American Samoa) Limited	American Samoa	100
McConnell Dowell (Fiji) Limited	Fiji	100
McConnell Dowell (Malaysia) Sendirian Berhad	Malaysia	100
McConnell Dowell Proprietary Limited	Australia	100
McConnell Dowell (UK) Limited	United Kingdom	100
McConnell Dowell Constructors (Aust.) Proprietary Limited	Australia	100
McConnell Dowell Constructors (PNG) Limited	Papua New Guinea	100
McConnell Dowell Constructors Hong Kong Limited	Hong Kong, China	100
McConnell Dowell Constructors Lao Company Limited	Laos	100
McConnell Dowell Constructors Limited	New Zealand	100
McConnell Dowell Constructors Thai Limited	Thailand	100
McConnell Dowell Holdings Proprietary Limited	Australia	100
McConnell Dowell Corporation (NZ) Limited	Australia	100
McConnell Dowell Corporation Limited	Australia	100
McConnell Dowell International Limited	Hong Kong, China	100

Notes to the consolidated financial statements continued

for the year ended 30 June 2017

54. GROUP OPERATING ENTITIES continued

Name	Country	Aveng Group effective consolidation %
Subsidiaries and consolidated structured entities continued		
McConnell Dowell – Kelana Sendirian Berhad	Malaysia	100
McConnell Dowell NC Société à Responsabilité Limitée	New Caledonia	100
McConnell Dowell PDS Sendirian Berhad	Brunei	100
McConnell Dowell Philippines Incorporated	Philippines	100
McConnell Dowell Saudi Arabia Ltd	Saudi Arabia	100
McConnell Dowell Southeast Asia Private Limited	Singapore	100
Moolman Mining (Botswana) Proprietary Limited	Botswana	100
Moolman Mining Ghana Limited	Ghana	100
Moolman Mining Tanzania Limited	Tanzania	100
Moolman Mining Zambia Limited	Zambia	100
Moolmans Mining Guinea S.A.	Guinea	100
Newco (Private) Limited	Zimbabwe	100
NFI Holdings Limited	Thailand	100
Perseroan Terbatas McConnell Dowell Services	Indonesia	100
Perseroan Terbatas Wanamas Puspita	Indonesia	100
Perseroan Terbatas McConnell Dowell Indonesia	Indonesia	94
Pybus 108 Proprietary Limited	South Africa	100
Qakazana Investment Holdings Proprietary Limited	South Africa	100
RF Valves Osakeyhtiö	Finland	100
RF Valves, Incorporated	United States of America	100
Steelmetals Proprietary Limited	South Africa	100
Stockton Pipelines Limited	United Kingdom	100
Toll Highway Development Company Proprietary Limited	South Africa	100
Trident Steel Intellectual Properties Proprietary Limited	South Africa	100
Tsurumi Pumps Proprietary Limited	South Africa	100
Tweed River Entrance Sand Bypassing Company Proprietary Limited	Australia	100
Vent-O-Mat Australia Proprietary Limited	Australia	100

54. GROUP OPERATING ENTITIES continued

Name	Country	Aveng Group effective consolidation %
Associates, joint ventures and infrastructure investments		
AEF Mining Services Proprietary Limited	South Africa	30
Dimopoint Proprietary Limited	South Africa	30
Dutco McConnell Dowell Fabrication LLC	Qatar	50
Dutco McConnell Dowell Middle East Limited Liability Company	United Arab Emirates	50
Dutco McConnell Dowell Qatar LLC	Qatar	50
Dutco McConnell Dowell Saudi Arabia LLC (KSA)	Saudi Arabia	50
Firefly Investments 238 Proprietary Limited	South Africa	45
Grinaker-LTA Fair Construction SARL*	Rwanda	50
Imvelo Concession Company Proprietary Limited	South Africa	30
J S G Developments Proprietary Limited	South Africa	33
Lesedi Tracks Proprietary Limited	South Africa	25
McConnell Dowell Abu Dhabi LLC Ltd	UAE	50
McConnell Dowell Gulf Ltd	Oman	50
Northern Toll Road Construction Limited	South Africa	24
Oakleaf Investment Holdings 86 Proprietary Limited*	South Africa	50
REHM Grinaker Construction Co Limited	Mauritius	43
REHM Grinaker Properties Co Limited	Mauritius	43
Specialised Road Technologies Proprietary Limited	South Africa	15
Steeledale Proprietary Limited	South Africa	30

** The above associates and joint ventures have a reporting date (31 December) which is different to that of the Group.*

Notes to the consolidated financial statements continued

for the year ended 30 June 2017

54. GROUP OPERATING ENTITIES continued

Name	Country	Aveng Group effective consolidation %
Joint operations		
ADR Joint Venture	Swaziland	80
ADR Hilton Joint Venture	Swaziland	70
Aveng Grinaker-LTA Enza 2 Joint Venture	South Africa	50
Aveng Grinaker-LTA Enza 3 Joint Venture	South Africa	70
Aveng Grinaker-LTA Liviero Pavilion Joint Venture	South Africa	60
Aveng Grinaker-LTA Rodio Joint venture	South Africa	50
Aveng Trencon Joint Venture	South Africa	50
Aveng Grinaker-LTA Keren Kula DEA	South Africa	75
Aveng Grinaker-LTA Raillink Joint Venture	South Africa	75
Aveng Lubocon Joint Venture	South Africa	80
Aveng Trencon Village Walk Joint Venture	South Africa	65
Northern Toll Roads Joint Venture	South Africa	50
Concor Karrena Joint Venture	South Africa	40
Grinaker-LTA Keren Kula Joint Venture	South Africa	70
Grinaker-LTA Sedibeng Brewery JV	South Africa	50
Interbeton Ibhayi Joint Venture	South Africa	50
Karrena Concor Joint Venture	South Africa	60
Karrena Concor Joint Venture	South Africa	50
Masakhane JV (R61)	South Africa	70
Medupi Power Station JV	South Africa	33
Megapile Aveng Joint Venture	South Africa	95
The Sandton Joint Venture	South Africa	50

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Separate statement of financial position

as at 30 June 2017

	Notes	2017 Rm	2016 Rm
ASSETS			
Non-current assets			
Investments in subsidiaries	1	**5 208**	2 225
Amounts owing by subsidiaries*	3	**1 201**	–
		6 409	2 225
Current assets			
Amounts owing by subsidiaries*	3	**1 202**	7 931
Other receivables		**2**	28
Cash and bank balances	4	**121**	124
		1 325	8 083
TOTAL ASSETS		**7 734**	10 308
EQUITY AND LIABILITIES			
Equity			
Share capital and share premium	5	**2 340**	2 340
Reserves		**245**	233
Retained earnings		**3 178**	5 852
		5 763	8 425
Liabilities			
Non-current liabilities			
Deferred taxation	2	**61**	84
Borrowings and other liabilities	6	**1 678**	1 586
		1 739	1 670
Current liabilities			
Amounts owing to subsidiaries*	3	**73**	48
Borrowings and other liabilities	6	**145**	145
Other payables	7	**12**	18
Taxation payable	15	**2**	2
		232	213
TOTAL LIABILITIES		**1 971**	1 883
TOTAL EQUITY AND LIABILITIES		**7 734**	10 308

** The Company will continue to measure the loan at the amounts which were initially advanced, as the Company is unable to reasonably estimate the timing of cash flows.*

Separate statement of comprehensive earnings

for the year ended 30 June 2017

	Notes	2017 Rm	2016 Rm
Other earnings		**700**	1 621
Operating expenses		**(489)**	(40)
Net operating earnings	8	**211**	1 581
Reversal of impairment		**500**	–
Impairment / loss on derecognition of investments		**(3 343)**	–
(Loss) / earnings before financing transactions		**(2 632)**	1 581
Finance earnings	9	**244**	207
Interest on convertible bonds	6	**(237)**	(225)
Other finance expenses	10	**(72)**	(38)
(Loss) / earnings before taxation		**(2 697)**	1 525
Taxation	11	**23**	20
(Loss) / earnings for the period		**(2 674)**	1 545
Other comprehensive earnings for the period		**–**	–
Total comprehensive (loss) / earnings for the period		**(2 674)**	1 545
Results per share (cents)			
(Loss) / earnings – basic	12	**(673,9)**	388,8
(Loss) / earnings – diluted	12	**(665,1)**	362,0
Number of shares (millions)			
In issue	12	**416,7**	416,7
Weighted average	12	**396,8**	397,4
Diluted weighted average	12	**402,1**	471,6

Separate statement of changes in equity

for the year ended 30 June 2017

	Share capital Rm	Share premium Rm	Total share capital Rm	Equity-settled share-based payment reserve Rm	Foreign currency translation reserve Rm	Convertible bond equity reserve Rm	Total reserves Rm	Retained earnings Rm	Total equity Rm
Balance at 1 July 2015	20	2 334	2 354	15	(54)	390	351	4 307	7 012
Earnings for the year	–	–	–	–	–	–	–	1 545	1 545
Total comprehensive earnings for the period	–	–	–	–	–	–	–	1 545	1 545
Purchase of treasury shares	–	(23)	(23)	–	–	–	–	–	(23)
Equity-settled share-based payment release	–	9	9	(9)	–	–	(9)	–	–
Equity-settled share-based payment charge for the period	–	–	–	13	–	–	13	–	13
Deferred transaction costs allocated to convertible bond equity reserve	–	–	–	–	–	(122)	(122)	–	(122)
Total contributions by and distribution to owners of company recognised directly in equity	–	(14)	(14)	4	–	(122)	(118)	–	(132)
Balance at 1 July 2016	**20**	**2 320**	**2 340**	**19**	**(54)**	**268**	**233**	**5 852**	**8 425**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2 674)**	**(2 674)**
Total comprehensive loss for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2 674)**	**(2 674)**
Equity-settled share-based payment charge	**–**	**–**	**–**	**12**	**–**	**–**	**12**	**–**	**12**
Total contributions by and distribution to owners of company recognised directly in equity	**–**	**–**	**–**	**12**	**–**	**–**	**12**	**–**	**12**
Balance at 30 June 2017	**20**	**2 320**	**2 340**	**31**	**(54)**	**268**	**245**	**3 178**	**5 763**
Notes	5	5	5			6			

Separate statement of cash flows

for the year ended 30 June 2017

	Notes	2017 Rm	2016 Rm
Operating activities			
Cash retained / (utilised) from operations	14	**(3 332)**	(20)
Non-cash and other movements	16	**3 314**	13
Cash generated / (utilised) by operations		**(18)**	(7)
Decrease / (increase) in other receivables		**26**	(10)
(Decrease) / increase in other payables		**(9)**	5
Total changes in working capital		**17**	(5)
Cash utilised by operating activities		**(1)**	(12)
Finance expenses paid	17	**(214)**	(178)
Finance earnings received	18	**150**	207
Taxation paid	15	**–**	(16)
Cash (outflow) / inflow from operating activities		**(65)**	1
Investing activities			
Dividend earnings	8	**–**	1 618
Cash inflow from investing activities		**–**	1 618
Operating free cash inflow		**(65)**	1 619
Financing activities with equity holders			
Shares repurchased	5	**–**	(23)
Financing activities with debt holders			
Decrease / (increase) in amounts owing by subsidiaries		**62**	(1 486)
Net decrease / (increase) in cash and bank balances		**(3)**	110
Cash and bank balances at beginning of the period		**124**	14
Total cash and bank balances at the end of the period	4	**121**	124
Borrowings excluding bank overdrafts		**1 823**	1 731
Net cash position		**(1 702)**	(1 607)

Notes to the separate financial statements

for the year ended 30 June 2017

1. INVESTMENTS IN SUBSIDIARIES

Name of company	Country	% holding 2017	2017 Rm	2016 Rm
Aveng Australia Holdings Proprietary Limited	Australia	**100,00**	**216**	1 148
Aveng (Africa) Proprietary Limited	South Africa	**100,00**	**4 992**	1 058
Grinaker-LTA Properties Proprietary Limited	South Africa	**100,00**	*****	*
Grinaker-LTA Intellectual Property Proprietary Limited	South Africa	**100,00**	**–**	15
Richtrau 191 Proprietary Limited	South Africa	**100,00**	*****	*
Steelmetals Proprietary Limited	South Africa	**100,00**	**–**	4
Aveng Management Company Proprietary Limited	South Africa	**100,00**	**–**	*
Aveng Trident Steel Holdings Proprietary Limited	South Africa	**100,00**	*****	*
			5 208	2 225
Reconciliation of investments in subsidiaries				
Opening balance			**2 225**	2 225
Purchase			**6 296**	–
Impairment			**(3 313)**	–
			5 208	2 225
Impairment				
Aveng (Africa) Proprietary Limited			**(2 154)**	–
Aveng Australia Holdings Proprietary Limited			**(932)**	–
Aveng Trident Steel Holdings Proprietary Limited			**(208)**	–
Grinaker-LTA Intellectual Property Proprietary Limited			**(15)**	–
Steelmetals Proprietary Limited			**(4)**	–
			(3 313)	–

All of the entities listed above are consolidated into the Group structure.

The carrying amount of the subsidiaries are shown net of impairment losses.

* *Amounts are less than R1 million.*

2. DEFERRED TAXATION

	2017 Rm	2016 Rm
Balance at year-end comprises		
Convertible bond	**(61)**	(84)
	(61)	(84)
Reconciliation of deferred taxation		
At the beginning of the year	**(84)**	–
Transfer from statement of comprehensive earnings – current year	**23**	20
Transfer from statement of comprehensive earnings – prior year	**–**	18
Accounted for directly in equity	**–**	(122)
	(61)	(84)

Unused taxation losses

As at June 2017 the Company had unused taxation losses of R6 million (2016: R1 million) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the uncertainty of future taxable profits.

		2017 Rm	2016 Rm
3.	**AMOUNTS OWING BY / (TO) SUBSIDIARIES**		
	Reconciliation of amounts owing by subsidiaries		
	Opening balance	**7 931**	6 752
	Current year movement	**(5 528)**	1 179
	Balance at the end of the year	**2 403**	7 931
	Reconciliation of amounts owing to subsidiaries		
	Opening balance	**(48)**	(336)
	Current year movement	**(25)**	288
	Balance at the end of the year	**(73)**	(48)
	Interest-bearing loans to subsidiaries	**1 201**	7 107
	Non-interest-bearing loans to subsidiaries	**1 202**	824
	Non-interest-bearing loans from subsidiaries	**(73)**	(48)
	Net amounts owing by subsidiaries	**2 330**	7 883
	Non-current assets	**1 201**	–
	Current assets	**1 202**	7 931
	Current liabilities	**(73)**	(48)
	Net amounts owing by subsidiaries	**2 330**	7 883

The total allowance for non-performing loans relating to amounts owing by subsidiaries amounted to R220 million (2016: R689 million), which relates to the loan to Aveng Management Company Proprietary Limited.

Refer to *note 20: Related parties.*

Notes to the separate financial statements continued

for the year ended 30 June 2017

		2017 Rm	2016 Rm
4.	**CASH AND BANK BALANCES**		
	Cash and bank balances	**121**	124
5.	**SHARE CAPITAL AND SHARE PREMIUM**		
	Authorised		
	882 034 263 ordinary shares of 5 cents each	**44**	44
	Issued		
	Share capital (416 670 931 ordinary shares of 5 cents each)	**20**	20
	Share premium	**2 320**	2 320
	Share capital and share premium	**2 340**	2 340
	Share premium		
	Opening balance	**2 320**	2 334
	Purchase of Nil (2016: 4 294 700) treasury shares in terms of equity-settled share-based payment plan	**–**	(23)
	Nil (2016: 279 200) forfeitable share plan (FSP) shares vested during the year	**–**	9
		2 320	2 320
	Shares held in terms of equity-settled share-based payment plan		
	– Number of shares	**5 248 854**	5 299 854
	– Market value (Rm)	**31**	19

		Number of shares	Number of shares
	Reconciliation of number of shares issued		
	Number of shares in issue	**416 670 931**	416 670 931
	Closing balance – shares of 5 cents each	**416 670 931**	416 670 931
	Less: Treasury shares held in terms of the equity-settled share-based payment plan	**(5 248 854)**	(5 299 854)
	Number of shares in issue less treasury shares	**411 422 077**	411 371 077

		2017 Rm	2016 Rm
6.	**BORROWING AND OTHER LIABILITIES**		
	Held at amortised cost		
	Interest-bearing borrowings	**1 823**	1 731
	Non-current liabilities		
	At amortised cost	**1 678**	1 586
	Current liabilities		
	At amortised cost	**145**	145
		1 823	1 731
	Interest-bearing borrowings comprise:		
	Payment profile financial		
	– within one year	**145**	145
	– from two to five years	**1 678**	1 586
		1 823	1 731

6. BORROWING AND OTHER LIABILITIES continued

Description	Terms	Rate of interest	2017 Rm	2016 Rm
Convertible bond	Interest coupon payable bi-annually until July 2019	7,25%	**1 823**	1 731
Total interest-bearing borrowings			**1 823**	1 731

2017	Convertible bond liability Rm	Convertible bond equity reserve Rm	Total Rm
Opening balance	**1 731**	**268**	**1 999**
Coupon bi-annual payment	**(145)**	**–**	**(145)**
Interest determined with the effective interest rate*	**237**	**–**	**237**
Accrual of coupon interest for convertible bond	**145**	**–**	**145**
– Transaction costs capitalised	**8**	**–**	**8**
– Effect of fair value adjustment of derivative liability	**6**	**–**	**6**
– Effect of fair value of conversion option reclassification to equity	**78**	**–**	**78**
	1 823	**268**	**2 091**
2016			
Opening balance	1 651	390	2 041
Coupon bi-annual payment	(145)	–	(145)
Recognition of deferred tax on convertible bond	–	(122)	(122)
Interest determined with the effective interest rate	225	–	225
Accrual of coupon interest for convertible bond	145	–	145
Unwinding of liability owing to:			
– Transaction costs capitalised	7	–	7
– Effect of fair value adjustment of derivative liability	6	–	6
– Effect of fair value of conversion option reclassification to equity	67	–	67
	1 731	268	1 999

* *Interest on convertible bond.*

During July 2014, the Company issued convertible bonds denominated in South African Rand with a nominal value of R2 billion and a coupon of 7,25%. Interest is payable bi-annually for a period of five years with the bond repayment date being five years from issue date at par plus interest. The effective interest rate associated with the convertible bond is 13,6%

Notes to the separate financial statements continued

for the year ended 30 June 2017

		2017 Rm	2016 Rm
7.	**OTHER PAYABLES**		
	Shareholders for dividends	**5**	6
	Other*	**7**	12
		12	18
	** Other includes interest payable and expense accruals.*		
8.	**NET OPERATING EARNINGS**		
	Net operating earnings for the year is stated after accounting for the following:		
	Directors' fees	**(10)**	(10)
	Dividend earnings	**700**	1 618
	Provision for non-performing loans	**–**	(19)
	Write-off of intercompany loans	**(471)**	–
9.	**FINANCE EARNINGS**		
	Amounts owing by subsidiaries	**235**	206
	Cash and bank balances	**9**	1
		244	207
10.	**OTHER FINANCE EXPENSES**		
	Interest on borrowings	**64**	24
	Transaction costs	**8**	14
		72	38
11.	**TAXATION**		
	Major components of the taxation expense (income)		
	Current		
	Local income taxation – recognised in current taxation for prior periods	**–**	18
		–	18
	Deferred		
	Deferred taxation – current period	**(23)**	(20)
	Deferred taxation – arising from prior period adjustment	**–**	(18)
		(23)	(20)
	Reconciliation between applicable taxation rate and effective taxation rate:	**%**	%
	Applicable taxation rate	**28,0**	28,0
	Exempt income*	**7,2**	(29,7)
	Disallowable charges*	**(34,4)**	0,4
	Effective taxation rate for the year	**0,8**	(1,3)
	** The items impacting the tax rate relate mainly to dividends received and impairments.*		

	2017 Number of shares	**2017 Weighted average number of shares**	2016 Number of shares	2016 Weighted average number of shares
12. LOSS PER SHARE				
Opening balance	**416 670 931**	**416 670 931**	416 670 931	416 670 931
	416 670 931	**416 670 931**	416 670 931	416 670 931
Less: Treasury shares				
Aveng Limited Share Purchase Trust	**(6 018 386)**	**(6 018 386)**	(6 018 386)	(6 018 386)
Aveng Management Company Proprietary Limited	**(8 586 593)**	**(8 586 593)**	(8 586 593)	(8 586 593)
Equity-settled share-based payment plan	**(5 248 854)**	**(5 284 854)**	(5 299 854)	(4 658 538)
Total treasury shares	**(19 853 833)**	**(19 853 833)**	(19 904 833)	(19 263 517)
Weighted average number of shares	**396 817 098**	**396 817 098**	396 766 098	397 407 414
Add: Contingently issuable shares in terms of BEE				
Add: Contingently issuable shares in terms of the equity-settled share-based payment plan	**5 248 854**	**5 284 854**	5 299 854	4 658 538
Add: Contingently issuable shares in terms of convertible bond	**–**	**–**	69 541 029	69 541 029
Diluted weighted average number of shares in issue*	**402 065 952**	**402 065 952**	471 606 981	471 606 981
Refer to note	**5**		5	

	2017 Rm	2016 Rm
Determination of diluted earnings		
(Loss) / earnings for the period attributable to equity holders of the parent	**(2 674)**	1 545
Interest in convertible bonds (net of taxation)	**–**	162
Diluted earnings for the period attributable to equity holders of the parent*	**(2 674)**	1 707
(Loss) / earnings per share – basic (cents)	**(673,9)**	388,8
(Loss) / earnings per share – diluted (cents)	**(665,1)**	362,0

* *The convertible bonds were anti-dilutive for the year ended 30 June 2017 and have therefore not been included in the calculation of diluted number of shares.*

13. EQUITY-SETTLED SHARE-BASED PAYMENT

The Company has a forfeitable share plan in place under which certain senior executives have been granted shares in the Company. A description of the plan as well as the terms and conditions relating to awards made are disclosed in the remuneration report.

	2017 Rm	2016 Rm
Opening balance	**19**	15
Equity-settled share-based payment	**12**	13
Equity-settled shares vested	**–**	(9)
	31	19

Forfeitable share plan

In terms of the Company FSP, senior executives of the Company, including executive directors, are granted shares in the Company for no consideration. The provision of shares will initially serve as a retention mechanism but can in future be used as an incentive mechanism with retention awards only made on an ad hoc basis as and when required. As such, there are no other performance conditions attaching to awards made to date. Vesting of the awards will be subject to the satisfaction of performance conditions measured over the performance period of three years. These shares participate in dividends and shareholder rights from grant date. The shares are subject to forfeit if the employee leaves the employment of the Group prior to the third anniversary of the award date.

On resignation, the employee will forfeit all unvested shares. On death, retrenchment, sale of employer company, disability or retirement, only a portion of the shares will vest, calculated based on the number of months worked over the total vesting period, subject to the satisfaction of performance conditions, if any are applicable at that stage. The plan is settled in shares and therefore is equity-settled. There are no portions of the plan that have been cash-settled.

This scheme was replaced by the Aveng Long Term Incentive Plan (LTIP) approved at the AGM in October 2015.

Notes to the separate financial statements continued

for the year ended 30 June 2017

13. EQUITY-SETTLED SHARE-BASED PAYMENT continued

	Number of shares 2017	Number of shares 2016
The movements during the year were as follows:		
Opening balance	**5 183 072**	1 284 354
Shares granted	**–**	4 294 700
Shares vested / exercised	**–**	(279 200)
Shares forfeited*	**(452 891)**	(116 782)
	4 730 181	5 183 072
Average share price (R)	**–**	5,15
Total value of forfeitable shares issued during the year to employees (Rm)	**–**	22

** In light of the performance condition not being satisfied, SARs reported were automatically forfeited in terms of the scheme rules and the endorsement of the Remuneration and Nomination Committee.*

		Note	2017 Rm	2016 Rm
14.	**CASH UTILISED FROM OPERATIONS**			
	Profit / (loss) before taxation		**(2 697)**	1 525
	Adjustments for:			
	Dividend earnings		**(700)**	(1 618)
	Finance earnings		**(244)**	(207)
	Finance and transaction expenses paid		**309**	263
	Allowance for doubtful debt		**–**	19
	Sundry income		**–**	(2)
			(3 332)	(20)
15.	**TAXATION PAID**			
	Amounts unpaid at the beginning of the period		**(2)**	–
	Amounts charged to the statement of comprehensive earnings – normal tax	11	**–**	(18)
	Amounts unpaid at the end of the period		**2**	2
			–	(16)
16.	**NON-CASH AND OTHER MOVEMENTS**			
	Loans and investments write off		**3 314**	–
	Movement in equity-settled share-based payment reserve		**–**	13
17.	**FINANCE AND TRANSACTION EXPENSES PAID**			
	Amounts charged to the statement of comprehensive earnings		**(309)**	(263)
	Movement in accrued finance expenses		**95**	85
			(214)	(178)
18.	**FINANCE EARNINGS RECEIVED**			
	Amounts charged to the statement of comprehensive earnings		**150**	207

19. CONTINGENT LIABILITIES

Contingent liabilities at reporting date, not otherwise provided for in the financial statements, arising from:

	Note	2017 Rm	2016 Rm
Parent company guarantees issued in:			
– South Africa and rest of Africa (ZARm)		**4**	4
– Australasia and Asia (AUDm)		**588**	521

Contract performance guarantees issued by the parent company on behalf of its Group companies are calculated either on the basis of all or part of the contract sum of each respective assignment, depending on the terms of the agreement, without being offset against amounts received as compensation from the customer.

20. RELATED PARTIES

During the year the Company and its subsidiaries, in the ordinary course of business, entered into various transactions. There were no related party transactions with directors or entities in which the directors have a material interest.

	2017 Rm	2016 Rm
Related party balances		
Net indebtedness due by / (to) subsidiaries		
Aveng Management Company Proprietary Limited	–	31
Aveng (Africa) Proprietary Limited	1 202	6 365
Qakazana Investment Holdings Proprietary Limited*	–	793
Grinaker Intellectual Property Proprietary Limited	(1)	–
Steelmetals Proprietary Limited	(1)	–
Aveng Australia Holdings	1 201	742
Aveng Limited Share Purchase Trust	(71)	(48)
	2 330	7 883
Related party transactions		
Finance earnings		
Aveng (Africa) Proprietary Limited	141	172
Aveng Australia Holdings	94	34
	235	206
Dividend earnings		
Aveng Trident Steel Holdings Proprietary Limited	–	1 571
Grinaker Intellectual Property Proprietary Limited	50	–
Qakazana Investment Holdings Proprietary Limited	496	–
Steelmetals Proprietary Limited	154	47
	700	1 618

* *Structured entity.*

21. RISK MANAGEMENT

The Company is exposed to credit, liquidity and interest rate risks. In order to manage these risks, the Company may enter into transactions which make use of the financial instruments. The Company has developed a risk management process to facilitate, control and monitor these risks. This process includes formal documentation of policies, including limits, controls and reporting structures.

The Company actively monitors the following risks:

Capital risk management

The primary objective of the Company's capital management policy is to ensure that the Company maintains a strong credit rating and healthy capital ratios in order to support its business.

The Company manages its capital structure and makes adjustments to it in response to changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the years ended 30 June 2016 and 30 June 2017.

The Company includes within its net cash position, cash and bank balances less borrowings and other liabilities.

Capital includes equity attributable to the equity holders of the Company of R5 763 million (2016: R8 425 million).

Liquidity risk

At year-end, the Group had two revolving credit facilities, R500 million and R300 million from Absa and Nedbank respectively. Both of these were undrawn at year-end.

During July 2014, the Company issued convertible bonds denominated in South African Rand with a nominal value of R2 billion and a coupon of 7,25% with the bond repayment date being five years from the issue date at par plus interest or convertible into shares.

As a result of the issuance of the convertible bond, the Company extended its debt payment profile.

The extension of the Company's debt payment profile and the undrawn facilities at year-end have resulted in the Company's exposure to liquidity risk being decreased.

Notes to the separate financial statements continued

for the year ended 30 June 2017

21. RISK MANAGEMENT continued

Interest rate risk

The Company's exposure to interest rate risk relates to the Company's debt obligations with variable interest rates. The Company's policy is to manage interest rate risk through both fixed and variable, long and short instruments.

Cash balances all carry interest at rates that vary in response to prevailing market rates in the respective geographical areas of the Company's operations.

No financial instruments are entered into to mitigate the risk of interest rates.

For the year ended 30 June 2017, the Company had no exposure to interest rate risk as the Company had no variable interest rate obligations. The only obligation is related to the convertible bond which is repayable semi-annually at a fixed interest rate.

Credit risk

The Company's only material exposure to credit risk is in its cash balances (refer to *note 4: Cash and bank balances*), and amounts due from subsidiaries (refer to *note 3: Amounts due by / (to) subsidiaries*). The maximum exposure to credit risk is set out in the cash and bank balance notes. There was no collateral held on the above balances as at the 2017 year-end, an impairment of R30 million (2016: R19 million) was provided for.

Deposits and cash balances are all kept at financial institutions with a high credit rating, as determined by credit rating agencies within a credit limit policy which is subject to regular review.

Borrowing capacity

The Company's borrowings capacity is unlimited in terms of the Company's memorandum of incorporation.

	2017 Rm	2016 Rm
The Company had the following undrawn facilities:		
Total borrowing facilities (includes bank overdraft facility of R556 million (2016: R435 million))	**3 179**	3 666
Current utilisation	**(1 823)**	(1 731)
Borrowing facilities available	**1 356**	1 935

Maturity profile of financial instruments

The maturity profile of the recognised financial instruments are summarised below. These profiles represent the undiscounted cash flows that are expected to occur in the future.

Financial instruments	**Less than one year Rm**	**One to five years Rm**	**Beyond five years Rm**	**Total Rm**
2017				
Non-derivative financial liabilities				
Interest-bearing borrowings	**145**	**1 678**	**–**	**1 823**
Amounts owing to subsidiaries	**73**	**–**	**–**	**73**
Other payables	**12**	**–**	**–**	**12**
	230	**1 678**	**–**	**1 908**
2016				
Non-derivative financial liabilities				
Interest-bearing borrowings	256	1 764	–	2 020
Amounts owing to subsidiaries	48	–	–	48
Other payables	18	–	–	18
	322	1 764	–	2 086

22. EVENTS AFTER THE REPORTING PERIOD

The directors are not aware of any matter or circumstance arising since the end of the reporting period not otherwise dealt with in the Company's financial statements which significantly affects the financial position of the Company as at 30 June 2017 or the results of its operations or cash flows for the year then ended.

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