Summarised audited consolidated annual financial statements
for the year ended 30 June 2020

Adelaide Oval Hotel – Australia

Salient features – financial performance

for the year ended 30 June 2020

Core revenue
R14,2 billion
Increase from R13,6 billion

Work in hand
R26,8 billion
Increase from R19,0 billion June 2019

Operating loss
R532 million
Decrease from R1,1 billion loss at June 2019

Operating free cash flow
R5 million outflow
June 2019: R1,0 billion outflow

Losses attributable to equity holders of the parent
R1,1 billion
Decrease from R1,7 billion loss at June 2019

Headline loss
R950 million
Decrease from R1 545 million loss at June 2019

Loss per share
5,8 cents
Movement from 10,5 cents loss per share at June 2019

Headline loss per share
4,9 cents
Improvement of 4,8 cents from 9,7 cents loss per share at June 2019

Hunua 4 Section 11 – New Zealand

Salient features – segmental analysis

for the year ended 30 June 2020

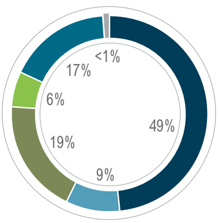
Net operating loss – segmental analysis

	FY20 Rm	FY19 Rm	Change %
Construction and Engineering: Australia and Asia*	**(162)**	110	>100
Mining	**38**	(372)	>100
Other and Eliminations	**(193)**	(327)	41
Total continuing operations	**(317)**	(589)	46
Construction and Engineering: South Africa and rest of Africa	**(174)**	(401)	57
Aveng Construction: South Africa**	**(174)**	(400)	57
Aveng Capital Partners	**–**	(1)	>100
Manufacturing and Processing	**(41)**	(129)	68
Aveng Steel	**13**	39	67
Aveng Manufacturing	**(54)**	(168)	68
Total discontinued operations	**(215)**	(530)	59
Net operating loss	**(532)**	(1 119)	52
Loss attributable to equity-holders of the parent	**(1 116)**	(1 681)	33
Headline loss	**(950)**	(1 545)	39

* *Includes a claims write-down of R227 million.*

** *Formerly Aveng Grinaker-LTA.*

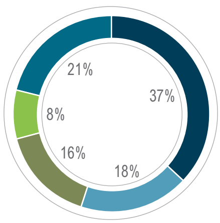
REVENUE PER OPERATING GROUP



2020

R20,9 billion

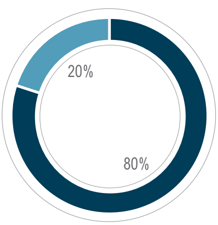
- McConnell Dowell
- Aveng Grinaker-LTA
- Aveng Mining
- Aveng Manufacturing
- Aveng Steel
- Other and Eliminations



2019

R25,7 billion

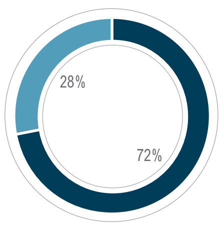
WORK IN HAND PER OPERATING GROUP



2020

R26,8 billion

- McConnell Dowell
- Aveng Mining



2019

R19,0 billion

Summarised statement of financial position

as at 30 June 2020

	Notes	2020 Rm	2019 Rm
ASSETS			
Non-current assets			
Goodwill arising on consolidation		**100**	100
Intangible assets		**15**	39
Property, plant and equipment		**3 180**	2 814
Equity-accounted investments		**35**	45
Infrastructure investments		**259**	142
Derivative instruments		**1**	-
Deferred taxation		**813**	622
Long-term receivables		**43**	–
Amounts due from contract customers	9	**–**	462
		4 446	4 224
Current assets			
Inventories		**187**	214
Derivative instruments		**9**	–
Amounts due from contract customers	9	**2 531**	2 159
Trade and other receivables		**358**	194
Taxation receivable		**41**	43
Cash and bank balances		**1 755**	1 605
		4 881	4 215
Assets Held for Sale	10	**2 309**	3 843
TOTAL ASSETS		**11 636**	12 282
EQUITY AND LIABILITIES			
Equity			
Stated capital		**3 874**	3 874
Other reserves		**1 102**	781
Accumulated losses		**(3 143)**	(2 208)
Equity attributable to equity-holders of parent		**1 833**	2 447
Non-controlling interest		**7**	7
TOTAL EQUITY		**1 840**	2 454
Liabilities			
Non-current liabilities			
Deferred taxation		**166**	86
Borrowings and other liabilities	11	**1 313**	1 450
Payables other than contract-related		**104**	115
Employee-related payables		**330**	245
		1 913	1 896
Current liabilities			
Amounts due to contract customers	9	**1 290**	813
Borrowings and other liabilities	11	**1 067**	695
Payables other than contract-related		**44**	21
Employee-related payables		**243**	283
Derivative instruments		**–**	1
Trade and other payables		**2 764**	2 683
Bank overdrafts		**424**	–
		5 832	4 496
Liabilities Held for Sale	10	**2 051**	3 436
TOTAL LIABILITIES		**9 796**	9 828
TOTAL EQUITY AND LIABILITIES		**11 636**	12 282

Summarised statement of comprehensive earnings

for the year ended 30 June 2020

	Notes	2020 Rm	2019 Rm
Revenue		**20 878**	25 676
Continuing operations		**14 185**	13 548
Discontinued operations	5	**6 693**	12 128
Cost of sales		**(19 907)**	(24 628)
Continuing operations		**(13 305)**	(12 764)
Discontinued operations	5	**(6 602)**	(11 864)
Gross earnings		**971**	1 048
Other earnings		**163**	110
Continuing operations		**37**	(8)
Discontinued operations	5	**126**	118
Operating expenses		**(1 647)**	(2 247)
Continuing operations		**(1 217)**	(1 331)
Discontinued operations	5	**(430)**	(916)
Loss from equity-accounted investments		**(19)**	(30)
Operating loss		**(532)**	(1 119)
Impairment loss on goodwill, intangible assets and property, plant and equipment	7/5	**(147)**	(241)
Impairment on equity-accounted investments		**(21)**	–
Gain on redemption of convertible bonds		**–**	102
Gain on disposal of assets Held for Sale		**24**	203
Gain on disposal of subsidiary	13	**10**	41
Gain on disposal of property, plant and equipment and intangible assets	5	**61**	36
Fair value adjustment on properties and disposal groups classified as Held for Sale	10/5	**(13)**	(51)
Loss before financing transactions		**(618)**	(1 029)
Interest earned on bank balances *		**32**	181
Interest on convertible bonds		**–**	(63)
Other finance expenses		**(461)**	(524)
Loss before taxation		**(1 047)**	(1 435)
Taxation	14/5	**(69)**	(245)
Loss for the period		**(1 116)**	(1 680)
Loss from continuing operations		**(825)**	(927)
Loss from discontinued operations	5	**(291)**	(753)
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		**318**	(73)
Convertible bond reserve movement		**–**	20
Other comprehensive earnings / (loss) for the period, net of taxation		**318**	(53)
Total comprehensive loss for the period		**(798)**	(1 733)

** Interest earned on bank balances is calculated using an effective interest rate.*

Summarised statement of comprehensive earnings continued

for the year ended 30 June 2020

	2020 Rm	2019 Rm
Total comprehensive loss for the period attributable to:		
Equity-holders of the parent	**(798)**	(1 731)
Non-controlling interest	**–**	(2)
	(798)	(1 733)
Loss for the period attributable to:		
Equity-holders of the parent	**(1 119)**	(1 681)
Non-controlling interest	**3**	1
	(1 116)	(1 680)
Other comprehensive earnings / (loss) for the period, net of taxation		
Equity-holders of the parent	**321**	(50)
Non-controlling interest	**(3)**	(3)
	318	(53)
Results per share (cents)		
From continuing and discontinued operations		
Loss – basic	**(5,8)**	(10,5)
Loss – diluted	**(5,8)**	(10,5)
From continuing operations		
Loss – basic	**(4,3)**	(5,8)
Loss – diluted	**(4,3)**	(5,8)
From discontinued operations		
(Loss) / earnings – basic	**(1,5)**	(4,7)
(Loss) / earnings – diluted	**(1,5)**	(4,7)
Number of shares (millions)*		
In issue	**19 394,5**	19 394,5
Weighted average	**19 369,6**	15 995,5
Diluted weighted average	**19 369,6**	15 995,5

The continuing and discontinued operations' net operating loss before interest, depreciation and amortisation for the Group, being net operating loss before interest, tax, depreciation and amortisation is R362 million. The net operating loss before interest, tax, depreciation and amortisation for the Group in June 2019 was R369 million.

** The Group undertook a rights offer on 4 July 2018, whereby the total number of rights offer shares subscribed for and excess allocations applied for was 4 931 854 395 rights offer shares. Further to this, the Group redeemed an existing convertible bond on 25 September 2018 through a specific issue of ordinary shares amounting to 14 045 972 894 shares.*

Summarised statement of changes in equity

for the year ended 30 June 2020

	Stated capital Rm	Foreign currency translation reserve Rm	Equity-settled share-based payment reserve Rm
YEAR ENDED 30 JUNE 2019			
Balance at 1 July 2018	2 009	811	39
(Loss) / earnings for the period	–	–	–
Other comprehensive loss for the period (net of taxation)	–	(70)	–
Total comprehensive loss for the period	–	(70)	–
Equity-settled share-based payment charge	–	–	1
Redemption of convertible bond	–	–	–
Share issue – rights to qualifying shareholders (4 July 2018)	461	–	–
Share issue – early redemption convertible bond (25 September 2018)	1 404	–	–
Balance as at 30 June 2019	3 874	741	40
YEAR ENDED 30 JUNE 2020			
Balance as at 30 June 2019 as previously reported	**3 874**	**741**	**40**
Adoption of *IFRS 16* accounting standard*	**–**	**–**	**–**
Balance at 1 July 2019	**3 874**	**741**	**40**
(Loss) / earnings for the period	**–**	**–**	**–**
Other comprehensive earnings / (loss) for the period (net of taxation)	**–**	**321**	**–**
Total comprehensive earnings / (loss) for the period	**–**	**321**	**–**
Balance at 30 June 2020	**3 874**	**1 062**	**40**

** The adoption of IFRS 16 has reduced the accumulated losses opening balance by R184 million. Prior year balances have not been restated as detailed in note 2.3 Impact of adopting new standards on the statement of financial position.*

Convertible bond equity reserve Rm	Total other reserves Rm	Retained earnings / (accumulated losses) Rm	Total attributable to equity-holders of the parent Rm	Non-controlling interest Rm	Total equity Rm
268	1 118	(815)	2 312	9	2 321
–	–	(1 681)	(1 681)	1	(1 680)
20	(50)	–	(50)	(3)	(53)
20	(50)	(1 681)	(1 731)	(2)	(1 733)
–	1	–	1	–	1
(288)	(288)	288	–	–	–
–	–	–	461	–	461
–	–	–	1 404	–	1 404
–	781	(2 208)	2 447	7	2 454
–	**781**	**(2 208)**	**2 447**	**7**	**2 454**
–	**–**	**184**	**184**	**–**	**184**
–	**781**	**(2 024)**	**2 631**	**7**	**2 638**
–	**–**	**(1 119)**	**(1 119)**	**3**	**(1 116)**
–	**321**	**–**	**321**	**(3)**	**318**
–	**321**	**(1 119)**	**(798)**	**–**	**(798)**
–	**1 102**	**(3 143)**	**1 833**	**7**	**1 840**

Summarised statement of cash flows

for the year ended 30 June 2020

	Note	2020 Rm	2019 Rm
Operating activities			
Cash utilised from operations		**(624)**	(1 002)
Non-cash and other movements	15	**110**	(8)
Cash utilised from operations after non-cash movements		**(514)**	(1 010)
Depreciation		**885**	742
Amortisation		**9**	8
Cash generated / (utilised) by operations		**380**	(260)
Changes in working capital:			
Decrease in inventories		**28**	41
(Increase) / decrease in amounts due from contract customers		**(57)**	420
Increase in trade and other receivables		**(85)**	(18)
Increase / (decrease) in amounts due to contract customers		**449**	(327)
Decrease in trade and other payables		**(160)**	(274)
Decrease in derivative instruments		**(11)**	(4)
Increase / (decrease) in payables other than contract-related		**12**	(21)
Increase in employee-related payables		**87**	24
Increase / (decrease) in working capital Held for Sale		**103**	(161)
Total changes in working capital		**366**	(320)
Cash generated / (utilised) by operating activities		**746**	(580)
Finance expenses paid		**(449)**	(513)
Finance earnings received		**32**	181
Taxation paid		**(50)**	(90)
Cash inflow / (outflow) from operating activities		**279**	(1 002)
Acquisition of property, plant and equipment – expansion		**(3)**	(47)
Acquisition of property, plant and equipment – replacement		**(759)**	(674)
Proceeds on disposal of property, plant and equipment		**143**	97
Proceeds on disposal of assets Held for Sale		**110**	449
Proceeds on disposal of subsidiaries		**116**	61
Investments in associate and joint ventures		**–**	2
Capital expenditure net of proceeds on disposal		**(393)**	(112)

	2020 Rm	2019 Rm
Loans repaid by equity-accounted investments net of dividends received	–	6
Dividends received	25	3
Movements in property, plant and equipment, intangible assets and investments classified as Held for Sale	84	102
Cash outflow from investing activities	(284)	(1)
Operating free cash outflow	(5)	(1 003)
Financing activities with equity-holders		
Proceeds from shares issued	–	1 866
Financing activities with debt-holders		
Repayment of external borrowings*	(390)	(1 149)
Proceeds from external borrowings*	115	1 935
Payment of capital portion of lease liabilities	(158)	–
Movement in borrowings and other liabilities classified as Held for Sale	(57)	(8)
Repayment on early redemption of convertible bond	–	(2 031)
Cash (outflow) / inflow from financing activities	(490)	613
Net decrease in cash and bank balances before foreign exchange movements	(495)	(390)
Foreign exchange movements on cash and bank balances	221	(81)
Cash and bank balances at the beginning of the period	1 605	2 076
Total cash and bank balances at the end of the period	1 331	1 605
Borrowings excluding bank overdrafts	2 380	2 145
Net debt position	(1 049)	(540)
Net debt position (excluding lease liabilities)	(552)	(540)

Notes to the summarised consolidated annual financial statements

for the year ended 30 June 2020

1. CORPORATE INFORMATION

The summarised audited consolidated financial statements (results) of Aveng Limited (the Company) and its subsidiaries (the Group) for the period ended 30 June 2020 were authorised for issue in accordance with a resolution of the directors on 28 November 2020.

Nature of business

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

Change in directorate

Mr Eric Diack resigned as the executive chairman effective 30 April 2020, continued as non-executive chair, and resigned as a director effective 12 June 2020.

Mr Philip Hourquebie resigned as chair of the audit and risk committee effective 17 June 2020, and was appointed as independent non-executive chairman and chairman of the investment committee effective 17 June 2020.

Ms Bridgette Modise was appointed as a director effective 1 November 2019, and was appointed as chair of the audit and risk committee and a member of the investment committee effective 17 June 2020.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP ACCOUNTING POLICIES

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

Basis of preparation

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

The summarised audited consolidated financial statements are presented in South African Rand (ZAR) and all values are rounded to the nearest million (Rm) except where otherwise indicated. The accounting policies adopted are consistent with those of the previous year as well as the Group's interim results as at 31 December 2019, except as disclosed in *note 4: Standards and interpretations effective and not yet effective* of the Group's audited consolidated financial statements.

The summarised audited consolidated financial results do not include all the information and disclosures required in the consolidated financial statements, and should be read in conjunction with the Group's audited consolidated financial statements as at 30 June 2020 that are available on the Company's website, www.aveng.co.za.

The financial results have been prepared by Efstathios White CA(SA) under the supervision of the Group finance director, Adrian Macartney CA(SA).

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

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

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

Changes to Group accounting policies

The Group adopted *IFRS 16 Leases* (*IFRS 16*) (see 2.1) and *IFRIC 23 Uncertainty over Income tax Treatment* (*IFRIC 23)* with effect from 1 July 2019.

A number of other new standards and interpretations are effective from 1 July 2019, but they do not have a material effect on the Group's financial statements.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP ACCOUNTING POLICIES continued

2.1 *IFRS 16 Leases*

The Group has adopted *IFRS 16* using the modified retrospective approach, with the effect of initially applying the standard recognised at the date of initial application (ie 1 July 2019). Accordingly, the information presented for 30 June 2019 has not been restated – ie it is presented, as previously reported under *IAS 17 Leases* (*IAS 17*), *IFRIC 4 Determining whether an Arrangement contains a Lease* (*IFRIC 4*) and related interpretations. The nature and effect of these changes are disclosed below.

IFRS 16 establishes a comprehensive framework for determining the recognition, measurement and disclosures of leases, and to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. It replaces *IAS 17, IFRIC 4* and related interpretations.

On adoption of *IFRS 16*, the Group recognised lease liabilities in relation to leases which had been previously classified as "operating leases" under the principles of *IAS 17* as well as those contracts which may meet the definition of leases under *IFRS 16*, not previously classified as "operating leases" under *IAS 17*. The Group measured the lease liability (and corresponding right-of-use asset) at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 July 2019.

The Group as a lessee has elected to use the following optional transitional expedients on a lease-by-lease basis at the transition date:

- not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, the Group elects to not apply *IFRS 16* to contracts that were previously identified as leases applying *IAS 17* and *IFRIC 4*;
- to apply a single discount rate to a portfolio of leases with reasonably similar characteristics; and
- to account for short-term leases with a lease term that ends within 12 months of the date of initial application as an expense on either a straight-line basis over the lease term or another systematic basis.

The lessee's weighted average incremental borrowing rate applied to the lease liabilities on 1 July 2019 was between 6,0% and 10,5%, based on the portfolio in which the lease was included.

Reconciliation of lease commitments at 30 June 2019 to lease liabilities (excluding asset-backed financing arrangements) at 1 July 2019	Rm
Operating lease commitments disclosed as at 30 June 2019	1 971
Recognition exemption for:	
Short-term leases recognised on a straight-line basis as an expense	(105)
Low-value leases recognised on a straight-line basis as an expense	(4)
Contracts reassessed as lease contracts	78
Extension and termination options reasonably certain to be exercised	147
Discounted using the lessee's weighted average incremental borrowing rate at the transition date	(604)
Lease liabilities classified as Held for Sale*	(926)
Lease liabilities recognised as at 1 July 2019	557
Of which are:	
Current lease liabilities	241
Non-current lease liabilities	316
	557

* *The operating lease commitments included in the Construction and Engineering: South Africa and Manufacturing and Processing disposal groups are classified as Held for Sale at 1 July 2019, and are accounted for in terms of IFRS 5.*

Notes to the summarised consolidated annual financial statements continued

for the year ended 30 June 2020

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP ACCOUNTING POLICIES continued

2.1 *IFRS 16 Leases* continued

Determining whether a contract contains a lease

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has the right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:
  - the Group has the right to operate the asset; or
  - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

The policy is applied to contracts in existence, entered into, or modified, on or after 1 July 2019.

Calculating the discount rate

The Group initially measures the lease liability at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be determined, the Group's weighted average incremental borrowing rare per portfolio of leases with reasonably similar characteristics. Generally, the Group uses its weighted average incremental borrowing rate as the discount rate.

Determining the lease term

The Group has determined the lease term as the non-cancellable period of the lease, together with periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option, and the periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. The lease term includes any rent-free periods provided to the lessee by the lessor.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of property, plant and equipment that have a lease term of 12 months or less and leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Separation of lease components

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative standalone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP ACCOUNTING POLICIES continued

2.2 *IFRIC 23 Uncertainty over Income Tax Treatments*

The Group has adopted *IFRIC 23* from 1 July 2019. The new interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects *IAS 12 Income Taxes*. The interpretation addresses the following:

- Whether an entity considered uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities.
- How an entity determines taxable profit / (loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances.

The Group has determined that there is no significant impact on the summarised audited consolidated financial statements from the change in the accounting standard.

2.3 Impact of adopting the new standards on the statement of financial position

In summary, the following adjustments were made to the amounts recognised in the statement of financial position at the *IFRS 16* transition date:

Impact on assets and liabilities at 1 July 2019	As reported previously at 30 June 2019 Rm	*IFRS 16* transition adjustments Rm	Opening balance at 1 July 2019 Rm
Non-current assets			
Property, plant and equipment	2 814	557	3 371
Assets Held for Sale*	3 843	926	4 769
Total assets impact		1 483	
Equity			
Accumulated losses**	(2 208)	184	(2 024)
Total equity impact		184	
Current liabilities			
Borrowings and other liabilities	695	241	936
Trade and other payables***	2 683	(114)	2 569
Non-current liabilities			
Borrowings and other liabilities	1 450	316	1 766
Liabilities Held for Sale****	3 436	856	4 292
Total equity impact		1 299	

* *Right-of-use assets amounting to R926 million in the Construction and Engineering: South Africa and rest of Africa and Manufacturing and Processing disposal groups are classified as Held for Sale at 1 July 2019, and are accounted for in terms of IFRS 5.*

** *The decrease in accumulated losses is as a result of straight-lining of operating lease liabilities previously recognised under IAS 17 Leases (R114 million continuing operations and R7 million discontinued operations)*

*** *Included in trade and other payables at 30 June 2019 is an amount of R114 million relating to the straight-lining of operating lease liabilities previously recognised under IAS 17. As the Group adopted IFRS 16 using the modified retrospective approach, the straight-lining of operating lease liabilities are reversed at transition date.*

**** *The net effect of liabilities Held for Sale at transition is an increase of R856 million. Lease liabilities amounting to R926 million in the Construction and Engineering: South Africa and rest of Africa and Manufacturing and Processing disposal groups are classified as Held for Sale at 1 July 2019, and are accounted for in terms of IFRS 5. In addition, trade and other payables Held for Sale at 30 June 2019 included an amount of R70 million relating to the straight-lining of operating lease liabilities previously recognised under IAS 17.*

Notes to the summarised consolidated annual financial statements continued

for the year ended 30 June 2020

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP ACCOUNTING POLICIES continued

2.3 Impact of adopting the new standards on the statement of financial position

Continuing operations

The adoption of *IFRS 16* has impacted the property, plant and equipment through the recognition of right-of-use assets amounting to R557 million. At the end of the prior reporting period, the Group had operating lease commitments amounting to R578 million which have been appropriately discounted and included in the lease liabilities. At inception, the lease liabilities comprised a current portion of R241 million, and a non-current portion of R316 million.

Discontinued operations

The adoption of *IFRS 16* has impacted the property, plant and equipment through the recognition of right-of-use assets amounting to R926 million in the Construction and Engineering: South Africa and rest of Africa disposal group and Manufacturing and Processing group which have been classified as Held for Sale. At the end of the prior reporting period, the Group had operating lease commitments amounting to R1 393 million which have been appropriately discounted and included in the lease liabilities. At inception, the lease liabilities comprised a current portion of R86 million, and a non-current portion of R840 million.

Short-term leases and leases of low-value assets

While determining the effect of the transition adjustment at 1 July 2019, the Group applied the transition recognition exemption within *IFRS 16.C10(c)(i)* for short-term leases and *IFRS 15.C9(a)* for leases of low-value assets. At 1 July 2019, the Group determined that operating lease commitments amounting to R105 million at 30 June 2019 qualified as short-term leases which were due to come to an end within 12 months of the transition date. Furthermore, lease contracts that contained low-value assets which met the recognition exemption had a combined asset value of R4 million at 1 July 2019.

2.4 Amounts recognised in the statement of financial position and profit or loss

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use assets Rm	Lease liabilities Rm
As at 1 July 2019	**1 483**	**(1 483)**
Classified as Held for Sale	(926)	926
Additions	98	–
Depreciation	(272)	–
Foreign exchange movement	56	(57)
Interest expense	–	(41)
Payments	–	158
As at 30 June 2020	**439**	**(497)**

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP ACCOUNTING POLICIES continued

2.4 Amounts recognised in the statement of financial position and profit or loss continued

The right-of-use asset balance at 30 June 2020 is made up of the following classes:

	Right-of-use assets Rm
Land and buildings	**345**
Plant, equipment and vehicles	**94**
As at 30 June 2020	**439**

Short-term leases and leases of low-value assets

The Group recognised rent expense from short-term leases of R210 million, leases of low-value assets of R17 million, and no variable lease payments for the period ended 30 June 2020.

3. 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.

3.1 Judgements and estimation assumptions

In the process of applying the Group's accounting policies, the Group has made 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 period, 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.

3.1.1 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.

Notes to the summarised consolidated annual financial statements continued

for the year ended 30 June 2020

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES continued

3.1 Judgements and estimation assumptions continued

3.1.2 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. Positions related to long outstanding contract positions have been judged in conjunction with legal advice and potential timeframes associated with legal action.

Refer to *note 9: Amounts due from / (to) contract customers* for further detail.

3.1.3 Loss making and onerous contracts

In determining whether a contract is loss making or onerous, management applies their professional judgement to assess the facts and circumstances specific to the relevant contract. The assessments are performed on a contract-by-contract basis.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately as an expense. The following factors are taken into account: future estimated revenues; the determination of the point in the progression toward complete satisfaction of the performance obligations in the contract; the nature and relationship with the customer; expected inflation; the terms of the contract; and the Group's experience in that industry.

3.1.4 Trade and other receivables and contract 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.

Provision for expected credit losses

The Group uses a probability of default/loss-given-default/exposure-at-default approach to calculate expected credit losses (ECLs) for trade receivables and contract assets. The Group segments its portfolio of trade receivables and contract assets into various segments based on shared risk characteristics to ensure homogenous grouping of counterparties. The classification of counterparties into the various segments is based on judgement, however, is limited to categories established in *Basel II Accord* and *SARB regulations (ie externally rated entity*, *unrated public institutions*. Other unrated corporate entities and other unrated retail entities), as well as the country of operation of the counterparty to appropriately classify the counterparty into various risk-based segments based on external rating agencies categorisation of sovereign debt.

The probability of default (PD) (defined by the Group as the probability that a pool of obligors will default in the next 12 months) is established by applying a benchmark approach using applicable segment's average PD as obtained from external rating agencies based on the classifications established above. The Group applies judgement through a regression model to adjust the estimated PD using historical information and historical default rates. The Group uses an external rating agencies historical PDs to generate forward-looking PDs for each segment identified above.

Each established segment in the Group uses judgement to adjust the average loss-given-defaults (LGDs) found in the *AIRB banks of South Africa's Pillar 3 reports* in order to remove the securitisation (collateral), overhead costs and downturn components, inherently included within.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES continued

3.1 Judgements and estimation assumptions continued

3.1.4 Trade and other receivables and contract receivables continued

Provision for expected credit losses continued

Due to the short-term nature of the trade receivables portfolio (less than one year), the Group assumes that the exposure-at-default (EAD) will equal to the amount outstanding at reporting date. The Group assumes that the period of exposure would amount to the payment term plus the number of days defined as default. The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due. The Group considers this period to be the number of days defined as default as it is the maximum contractual period over which the Group is exposed to risk.

The Group uses a market-related interest rate in the determination of the effective interest rate used in the model.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

3.1.5 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 cash-generating unit (CGU) of the Group.

Impairment exists when the carrying amount of a CGU exceeds its recoverable amount. 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.

3.1.6 Revenue recognition

The Group uses the input method in determining the satisfaction of the performance obligation over a period of time in accounting for its construction contracts.

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

- the determination of the point in the progress toward complete satisfaction of the performance obligation;
- the determination of when it is highly probable that revenue will not be reversed in the future for claims and variations;
- 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.

Notes to the summarised consolidated annual financial statements continued

for the year ended 30 June 2020

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES continued

3.1 Judgements and estimation assumptions continued

3.1.6 Revenue recognition continued

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 are reviewed and updated monthly, and more frequently as determined by events or circumstances.

In addition, many contracts specify the completions schedule requirements and allow for 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.

3.1.7 Leases

Judgements made in the application of the accounting policies for leases include:

- determining whether a contract contains a lease;
- calculating the discount rate;
- determining the lease term;
- application of exemptions for short-term leases and leases of low-value assets; and
- separation of lease components.

At inception of a contract, the Group assesses whether a contract is, or contains a lease. In determining whether a contract is, or contains a lease, the Group considers whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

In determining an appropriate discount rate, the Group considers on a lease-by-lease basis whether there is an interest rate implicit in the lease or, if that rate cannot be readily determined, the Group uses judgement in determining an incremental weighted average borrowing rate. In calculating the weighted average incremental borrowing rate, the Group uses a portfolio approach whereby a single discount rate is calculated per portfolio of leases with reasonably similar characteristics. The basis of the discount rate is determined using a cost of debt rate that the Group would pay to borrow funds over a similar term, and with similar security, to obtain an asset of similar value to the right-of-use asset in a particular jurisdiction.

The Group considers the lease term as the non-cancellable period of a lease, together with periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option, and the periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. The lease term includes any rent-periods provided to the lessee by the lessor.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of property, plant and equipment that have a lease term of 12 months or less and leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

At inception or on reassessment of a contract that contains a lese component, the Group allocates the consideration in the contract to each lease component based on their relative standalone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate the non-lease components but rather account for the lease and non-lease components as a single lease component.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES continued

3.1 Judgements and estimation assumptions continued

3.1.8 Uncertainty over income tax treatments

In determining the taxable profit / (loss), tax bases, unused tax losses and tax rates, management assumes that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so.

In determining whether tax treatments should be considered independently or on a collective basis, the Group selects the approach that provides better predictions of the resolution of the uncertainty. The Group reassess the tax treatment if facts and circumstances change.

3.1.9 Impact of the COVID-19 on operations

At 30 June 2020, the impact and duration of the current COVID-19 outbreak and the related measures taken to control it, including the likelihood of a global recession, are not yet known. In preparing these financial statements, the short-term impact on items such as financial instruments, working capital, sales and provisions has been considered. The valuations of financial assets and liabilities carried at fair value reflect inputs at the balance sheet date. In assessing the carrying value of its other non-current assets, the Group has assumed that, despite a significant short-term impact, long-term market conditions remain unchanged, as the timing and scale of the economic impact and recovery remain uncertain.

3.1.10 Held for Sale – subsequent measurement criteria

In determining whether the non-core disposal groups continue to be classified as Held for Sale, management believes that the carrying amount of these disposal groups will be recovered through a sale transaction rather than through continuing use. Management uses judgement in determining whether the sale of CGUs remains highly probable.

In the preceding 12 months there have been numerous expressions of interest, and a number of non-binding offers for CGUs within the disposal groups, however, the Group did not receive reasonable offers to purchase all of the remaining CGUs. The delay in the finalisation of sales were due to events and circumstances beyond the control of management; including but not limited to the significant impact of COVID-19 on the ability to obtain the best value for the remaining assets, and the corresponding uncertainty within the market brought about during lockdown.

Management continues to remain committed to the disposal plan previously announced to dispose of the remaining non-core disposal groups and continues to actively locate appropriate buyers. The overall plan to dispose of the assets remains but the planned manner in which the assets will be disposed of has been revised during the year. The appropriate level of management remains committed to a plan to sell the CGUs and expect that the sales will be concluded within the next 12 months.

Through the use of these judgements, the Group concludes that the carrying amount of the remaining disposal groups classified as Held for Sale will be recovered principally through a sale transaction rather than continuing use. The Group will continue to reassess the classification should facts and circumstances change.

Notes to the summarised consolidated annual financial statements continued

for the year ended 30 June 2020

4. GOING CONCERN AND LIQUIDITY

As detailed in *note 2: Basis of preparation and changes to the Group accounting policies* and note 17: *Events after the reporting period* to the financial statements, in determining the appropriate basis of preparation of the financial statements, the Board is required to consider whether the Group can continue in operational existence for the foreseeable future.

In concluding this assessment, the Board has taken the following considerations into account:

Execution of plans

- Continued improvement in the operating performance and therefore underlying value and sustainability of both McConnell Dowell and Moolmans;
- Progress on the non-core asset disposal plan, including:
  - The receipt of proceeds of R226 million in the 2020 financial year, including, Aveng DFC of R114 million, *Aveng Construction Building and Civil Engineering of R3 million, Aveng Grinaker-LTA Mechanical and Electrica*l for R72 million and a R37 million payment for *Aveng Construction Rand Roads;*
  - Subsequent to year end, disposals were concluded in respect of Ground Engineering Limited (GEL), Duraset, REHM Grinaker, Infraset Pietermaritzburg and various properties totalling R54 million;
  - The restructure of Aveng Trident Steel to focus on the value-added service centre business, thereby improving profitability and allowing the Group to monetise a significant part of the inventory and reduce working capital; and
  - Other disposals are at varying stages of execution.
- updated budget and business plans for post-year end period up to 30 June 2022 for the Group, incorporating the benefits already realised and expected from actions taken, as well as future benefits from improved liquidity to be achieved
- sensitivity testing of key inputs included in the operating and liquidity forecasts to ascertain the effect of non-achievement of one or more of the key inputs (operational performance of core assets, non-core asset disposal timing), including any effect on the ongoing compliance with covenant requirements in place with the South African lending banks, Australian banks or other financing agreements within the individual liquidity pools; and
- the South African short-term liquidity forecast management process continues to be executed and monitored in all the South African operations.

In the 2020 financial year, the Group reported a loss after tax of R1,1 billion, inclusive of R147 million of impairments. As a result of these losses, the continued difficult trading conditions in South Africa and the impact of COVID-19 on the operations (discussed below), the Group's available cash resources were negatively impacted. The Group continues to focus on improving operational performance, reducing overhead and improving working capital efficiencies. To this end, a number of Group initiatives have been concluded or are in progress.

The Group has cash (net of bank overdraft facilities) of R 1.3 billion (30 June 2019: R1.6 billion) at 30 June 2020, of which R429 million (30 June 2019: R624 million) is held in joint arrangements. Unutilised facilities (includes bank overdraft facilities of R605 million) amounted to R483 million (30 June 2019: R302 million).

4. GOING CONCERN AND LIQUIDITY continued

Achieved during the period to support the going concern assumption

- Arranged two additional short-term working capital facilities of R200 million each with the South African Banking Group to address a seasonal low point in the Group's cash flow that was exacerbated by specific unanticipated market events surrounding the COVID-19 pandemic, including timing delays of non-core asset sales in the latter part of the 2020 financial year, of which R200 million was repaid on 31 August 2020;
- A permanent cashflow contribution of R168 million (unaudited) from Aveng directors, employees and management in South Africa by way of salary cuts in response to COVID-19 between April and June 2020; and
- McConnell Dowell implemented salary reductions for all management and staff above a particular pay scale and not directly employed on project sites which remained open as a response to COVID-19.

COVID-19 pandemic

The unprecedented challenges of COVID-19 were dealt with effectively as the Group demonstrated its agility and resilience in response to the pandemic. The Group's diversity across customers, geographies, industry sectors and commodities provided risk mitigation and softened the impact on the overall business performance. Despite this risk mitigation, the COVID-19 pandemic created a liquidity shortfall during April and May 2020. This shortfall was managed through a short-term facility of R200 million by the Group's South African relationship banks which was repaid in August 2020 and the savings contributed by staff, management and the Board taking salary and wage cuts of approximately R168 million. The Board extends its thanks to all employees for this contribution in such exceptional circumstances.

The Group responded proactively to the restrictions and lockdowns by taking measures to protect its employees, operations and its financial position. Initiatives, including prudent cash management, working capital management and cost reductions were implemented across the Group. As a result of the restrictions and measures imposed, the Group's business units were severely impacted during the reporting period. Operations were restricted in South Africa, New Zealand and South-East Asia for varying lengths of time. Australian operations continued throughout the period.

Support from clients varied from compensation for costs incurred and time lost, to only allowing extensions of time for project delays resulting from COVID-19 restrictions and measures.

At the time of this report, the Group has estimated that COVID-19 negatively impacted its EBIT by approximately R380 million (unaudited).

Due to the uncertainty of the pandemic, and the response by governments and societies around the globe, it is expected that the commercial close-out of all COVID-19 related impacts will take some time to quantify.

Notes to the summarised consolidated annual financial statements continued

for the year ended 30 June 2020

4. GOING CONCERN AND LIQUIDITY continued

Achieved subsequent to year end

Subsequent to year end, the Group announced the restructuring and the recapitalisation of its balance sheet. Details of this are set out in *note 17: Events after the reporting period.*

Liquidity, solvency and ongoing funding

The Group continues to actively manage the liquidity and cash flow in two distinct liquidity pools, namely McConnell Dowell and the South African liquidity pool. McConnell Dowell's liquidity benefited from the deliberate action to settle legacy claims, the receipt of advance payments and a growing order book. As a result, McConnell Dowell will report a strong cash balance with sufficient cash and liquidity to support the growing order book and the growth opportunities that this market continues to present. The strict lockdown regulations announced in South Africa and related loss of revenue negatively impacted a liquidity position that was already under pressure. As noted, this was mitigated through short term facilities that have subsequently been repaid and a significant contribution by our people. The South African liquidity pool remains tightly managed and has demonstrated significant improvement over the first quarter of FY 2021.

Management prepared a budget for the 2021 financial year and the following two years, as well as preparing cash flow forecasts covering a minimum of 12 months from the date of these financial statements. These forecasts have been prepared with the assistance of several independent external consultants and reviewed by management to ensure that they have been accurately compiled using appropriate assumptions. Notably, the preparation of budgets, plans and forecasts include consideration of the impact of the COVID-19 pandemic. This included management's responses to the effects thereof. Whilst management has taken action to address these effects, this pandemic continues to evolve and represents a risk to the achievement of these budgets, plans and forecasts. Management will continue to respond to the circumstances as these emerge. The budgets, plans and forecasts have, together with the assumptions used, been interrogated and approved by the Board.

The Group's current liabilities of R5,8 billion exceeded its current assets of R4,9 billion at 30 June 2020. This was mainly due to the classification of the short-term debt portion of R1,1 billion to current borrowings. Following the extension to the CTA concluded post year-end, this short-term portion will reduce.

Following a multi-year journey, the restructuring and recapitalisation transaction announced post year-end, will allow the Group to reset its capital structure, deleveraging the balance sheet by more than R1 billion, extending the Group's maturity profile to 3 years, and simultaneously materially improving the Group's South African liquidity pool. Following this transformational event, Aveng believes that the remaining debt is sustainable and the remaining balance is forecast to be repaid over the next three years. Importantly, this transaction not only provides Aveng the capital structure flexibility to complete its non-core asset sale program and to wind down its remaining exposure to discontinued businesses, but also sets the Group on a path to pursue its strategy around the Group's core businesses, McConnell Dowell and Moolmans, which have returned to profitability and where Aveng sees further business improvement prospects and growth opportunities.

4. GOING CONCERN AND LIQUIDITY continued

Liquidity, solvency and ongoing funding continued

The forecasts indicate that the Group will have sufficient cash resources for the foreseeable future. The core businesses are performing in line with the plan and are therefore expected to generate sufficient cash to repay the long-term debt. In addition, the Group's remaining non-core businesses (particularly Trident Steel) are expected to generate sufficient cash from operations to contribute to available liquidity. The disposals of the remaining non-core assets are expected to be completed during the 2021 financial year and will contribute to the repayment of the debt and available liquidity.

The directors have considered all of the above up to the date of approval of these financial statements, including detailed consideration of the current position of all core and non-core businesses, all business 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 Group and that the realisation of assets and the settlement of liabilities, including contingent liabilities and commitments, will occur in the ordinary course of business.

Refer to *note 17: Events after the reporting period*.

5. DISCONTINUED OPERATIONS

Identification and classification of discontinued operations

In 2018, management embarked on an extensive strategic review to ensure the Group's sustainable future. The review was completed in February 2018 following a thorough and robust interrogation of all parts of the business. The review included the identification of businesses and assets that are core to the Group, and which support the overall long-term strategy, determining the most appropriate operating structure, as well as recommending a sustainable future capital and funding model.

A comprehensive plan was developed and is being implemented by management to execute on the critical findings of the strategic review. Some of the critical findings included the reshaping of the Group's operating structure to a smaller and more focused group. The newly envisaged Group structure comprises McConnell Dowell and Aveng Moolmans forming the core businesses of the Group with Aveng Construction: South Africa (formerly Aveng Grinaker-LTA), Aveng Manufacturing and Aveng Trident Steel being deemed the non-core operating groups. As at 30 June 2020, management remained committed to a robust plan to exit and dispose of the identified non-core operating groups.

Notes to the summarised consolidated annual financial statements continued

for the year ended 30 June 2020

5. DISCONTINUED OPERATIONS continued

Extension of discontinued operations beyond 12 months

The extension of the classification of the remaining operations within non-core operating segments as discontinued operations beyond 12 months is supported by the ongoing commitment from the Board to actively sell the Held for Sale assets in line with the strategic review. Unforeseen challenges outside the control of management, including the negative effects of the COVID-19 pandemic on the disposal process, have delayed the execution of sales on the remaining assets. As at 30 June 2020, the Group did not have reasonable binding offers to purchase the remaining assets. Despite the delays in the disposal of these assets, management believes that the sales remain highly probable and has embarked on renewed efforts to sell the assets by engaging external partners to assist in active programmes to locate buyers and complete the sale of these assets in line with the strategic review. At year end, these assets remain available for immediate sale in their present condition subject only to terms that are usual and customary for the sales of such assets. Management continues to actively market the assets at prices that are reasonable in relation to their current fair value, which leads management to conclude that it is highly probable that the sale of the remaining assets within the non-core operating segments will be concluded in the next 12 months.

As part of the extension to the period to complete the sales, the continued support by the Board and plan by management to locate buyers indicate that it is highly unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Aveng Construction: South Africa (formerly Aveng Grinaker-LTA), forming part of the *Construction and Engineering: South Africa and rest of Africa* reportable segment (refer to *note 6: Segmental report*) and Aveng Manufacturing and Aveng Trident Steel, both forming part of the *Manufacturing and Processing* reportable segment (refer to *note 6: Segmental report*), have met the requirements in terms of *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (IFRS 5)* and have been presented as discontinued operations in the Group's statement of comprehensive earnings.

The Group's intention to dispose of the non-core operating groups triggered an initial impairment assessment on classification of Held for Sale. Impairment was allocated to the identified cash generating units (CGUs) of the operating groups (refer to *note 7: Impairment*).

The underlying assets and liabilities of the non-core operating groups were classified as Held for Sale per the requirements of *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* in separately identifiable disposal groups (refer to *note 10: Assets and liabilities classified as Held for Sale*).

Further to this, the Group remeasured the non-core operating groups by calculating the subsequent fair value less costs to sell as at 30 June 2020. The subsequent fair value measurement is detailed on the following page.

5. DISCONTINUED OPERATIONS continued

The loss from discontinued operations is analysed as follows:

	2020 Rm	2019 Rm
Revenue	**6 693**	12 128
Cost of sales	**(6 602)**	(11 864)
Gross earnings	**91**	264
Other earnings	**126**	118
Operating expenses	**(430)**	(916)
(Loss) / earnings from equity-accounted investments	**(2)**	4
Operating loss	**(215)**	(530)
Impairment loss on goodwill, intangible assets and property, plant and equipment	**–**	(78)
Gain on disposal of property, plant and equipment	**36**	36
Fair value adjustments on properties and disposal groups classified as Held for Sale	**(13)**	(51)
Loss before financing transactions	**(192)**	(623)
Net finance expenses	**(110)**	(34)
Loss before taxation	**(302)**	(657)
Taxation	**11**	(96)
Loss for the period	**(291)**	(753)
Attributable to:		
Equity-holders of the parent	**(291)**	(753)
Items by nature		
Capital expenditure	**25**	113
Loss before interest, taxation, depreciation and amortisation (EBITDA)	**(215)**	(530)
Results per share (cents)		
Loss – basic	**(1,5)**	(4,7)
Loss – diluted	**(1,5)**	(4,7)
Net cash flows in relation to discontinued operations		
Cash outflow from operating activities	**(313)**	(843)
Cash inflow from investing activities	**108**	102
Cash outflow from financing activities	**(57)**	(8)

Notes to the summarised consolidated annual financial statements continued

for the year ended 30 June 2020

6. SEGMENTAL REPORT

The reportable segments of the Group are components:

- 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 as required per *IFRS 8 Operating Segments*.

Prior to the outcome of the strategic review and management's implementation of a robust plan to reshape and refocus the operating structure of the Group, the following five reportable segments were presented which were largely organised and managed separately according to the nature of products and services provided:

- *Construction and Engineering: Australasia and Asia;*
- *Mining;*
- *Other and Eliminations;*
- *Construction and Engineering: South Africa and rest of Africa; and*
- *Manufacturing and Processing.*

In line with the findings of the strategic review and as discussed in *note 10: Assets and liabilities classified as Held for Sale*, the *Construction and Engineering: South Africa and rest of Africa* and *Manufacturing and Processing* reportable segments are presented and disclosed as discontinued operations. The *Construction and Engineering: Australasia and Asia*, *Mining* and *Other and Eliminations* reporting segments are presented as continuing operations.

The reportable segments are presented per their classification as continuing and discontinued in the disclosure of the segmental statement of comprehensive earnings and segmental statement of financial position in this note.

Details on the reportable segments are as follows:

6.1 Continuing operations

6.1.1 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 and Southeast Asia.

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 and mineral construction.

6.1.2 Mining

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

6.1.3 Other and Eliminations

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

6. SEGMENTAL REPORT continued

6.2 Discontinued operations

6.2.1 Construction and Engineering: South Africa and rest of Africa

This segment includes Aveng Construction: South Africa (formerly Aveng Grinaker-LTA) and Aveng Capital Partners. Aveng Construction: South Africa is divided into the following business units: Aveng Construction Building and Coastal, Aveng Construction Civil Engineering (including Rand Roads and GEL), Aveng Construction Mechanical & Electrical and Aveng Water.

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

During the current year, the following businesses were sold: Aveng Construction Building and Coastal, Aveng Construction Civil Engineering, Aveng Construction Rand Roads and Aveng Construction Mechanical & Electrical.

The Group remained responsible for a limited number of contracts which were retained by the Group following the disposal of the businesses mentioned above. The Group expects that these will be completed in the next 12 months. These projects continue to be classified as part of the discontinued operations within Construction and Engineering: South Africa and rest of Africa.

The Group disposed of Aveng Water in the prior year.

6.2.2 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 automotive OEM and rail sectors across the Group's value chain locally and internationally.

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

During the current year, Aveng Dynamic Fluid Control (DFC) was sold. In the prior year, Aveng Rail was sold.

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6. SEGMENTAL REPORT continued

	CONTINUING OPERATIONS			
	Construction and Engineering: Australasia and Asia		Mining	
	2020 Rm	2019 Rm	**2020 Rm**	2019 Rm
Assets				
Goodwill arising on consolidation	**100**	100	**–**	–
Intangible assets	**–**	–	**15**	20
Property, plant and equipment	**837**	510	**2 263**	2 250
Equity-accounted investments	**2**	2	**3**	3
Infrastructure investments	**–**	–	**–**	–
Deferred taxation	**804**	618	**–**	–
Long-term receivables	**–**	–	**–**	–
Derivative instruments	**–**	–	**10**	–
Amounts due from contract customers	**2 084**	2 213	**369**	614
Inventories	**15**	40	**171**	174
Trade and other receivables	**201**	117	**43**	50
Taxation receivable / (payable)	**39**	33	**(16)**	(15)
Cash and bank balances	**1 673**	1 024	**93**	72
Assets Held for Sale	**–**	–	**–**	–
Total assets	**5 755**	4 657	**2 951**	3 168
Liabilities				
Deferred taxation	**155**	73	**197**	236
Borrowings and other liabilities	**436**	178	**217**	178
Payables other than contract-related	**–**	–	**–**	–
Employee-related payables	**387**	309	**118**	141
Trade and other payables	**1 697**	1 657	**454**	529
Derivative instruments	**–**	–	**–**	1
Amounts due to contract customers	**1 159**	645	**103**	169
Bank overdraft	**–**	–	**–**	–
Liabilities Held for Sale	**–**	–	**–**	–
Total liabilities	**3 834**	2 862	**1 089**	1 254

CONTINUING OPERATIONS				DISCONTINUED OPERATIONS					
Other and Eliminations		Total		Construction and Engineering: South Africa and rest of Africa		Manufacturing and Processing		Total	
2020 Rm	2019 Rm	**2020 Rm**	2019 Rm	**2020 Rm**	2019 Rm	**2020 Rm**	2019 Rm	**2020 Rm**	2019 Rm
–	–	**100**	100	**–**	–	**–**	–	**–**	–
–	19	**15**	39	**–**	–	**–**	–	**–**	–
78	54	**3 178**	2 814	**2**	–	**–**	–	**2**	–
30	12	**35**	17	**–**	28	**–**	–	**–**	28
142	142	**142**	142	**117**	–	**–**	–	**117**	–
9	4	**813**	622	**–**	–	**–**	–	**–**	–
43	–	**43**	–	**–**	–	**–**	–	**–**	–
–	–	**10**	–	**–**	–	**–**	–	**–**	–
–	(206)	**2 453**	2 621	**78**	–	**–**	–	**78**	–
–	–	**186**	214	**1**	–	**–**	–	**1**	–
42	27	**286**	194	**72**	–	**–**	–	**72**	–
17	14	**40**	32	**–**	17	**1**	(6)	**1**	11
(208)	(121)	**1 558**	975	**46**	259	**151**	371	**197**	630
–	–	**–**	–	**33**	921	**2 276**	2 922	**2 309**	3 843
153	(55)	**8 859**	7 770	**349**	1 225	**2 428**	3 287	**2 777**	4 512
(186)	(300)	**166**	9	**–**	36	**–**	41	**–**	77
1 727	1 789	**2 380**	2 145	**–**	–	**–**	–	**–**	–
148	136	**148**	136	**–**	–	**–**	–	**–**	–
57	78	**562**	528	**11**	–	**–**	–	**11**	–
264	469	**2 415**	2 655	**349**	28	**–**	–	**349**	28
–	–	**–**	1	**–**	–	**–**	–	**–**	–
–	(1)	**1 262**	813	**28**	–	**–**	–	**28**	–
424	–	**424**	–	**–**	–	**–**	–	**–**	–
–	–	**–**	–	**16**	1 064	**2 035**	2 372	**2 051**	3 436
2 434	2 171	**7 357**	6 287	**404**	1 128	**2 035**	2 413	**2 439**	3 541

Notes to the summarised consolidated annual financial statements continued

for the year ended 30 June 2020

6. SEGMENTAL REPORT continued

	CONTINUING OPERATIONS			
	Construction and Engineering: Australasia and Asia		Mining	
	2020 Rm	2019 Rm	**2020 Rm**	2019 Rm
Revenue	**10 297**	9 527	**3 955**	4 143
Construction contract revenue	**10 297**	9 527	**3 943**	4 120
Sale of goods	**–**	–	**1**	11
Other revenue	**–**	–	**11**	12
Transport revenue	**–**	–	**–**	–
Cost of sales	**(9 704)**	(8 537)	**(3 741)**	(4 325)
Gross earnings / (loss)	**593**	990	**214**	(182)
Other earnings	**42**	3	**(31)**	(8)
Operating expenses	**(784)**	(846)	**(144)**	(181)
(Loss) / earnings from equity-accounted investments	**(13)**	(37)	**(1)**	(1)
Net operating earnings / (loss)	**(162)**	110	**38**	(372)
Impairment loss on goodwill, intangible assets and property, plant and equipment	**–**	–	**(132)**	(163)
Impairment loss on equity-accounted investments	**–**	–	**–**	–
Gain on redemption of convertible bond	**–**	–	**–**	–
Gain on disposal of assets Held for Sale	**–**	–	**–**	–
Gain on disposal of subsidiaries	**–**	–	**–**	–
Gain / (loss) on disposal of property, plant and equipment	**45**	–	**(5)**	–
Fair value adjustments on properties and disposal groups classified as Held for Sale	**–**	–	**–**	–
Earnings / (loss) before financing transactions	**(117)**	110	**(99)**	(535)
Net finance income / (expenses)	**(43)**	(15)	**(34)**	(12)
Earnings / (loss) before taxation	**(160)**	95	**(133)**	(547)
Taxation	**(36)**	(16)	**(5)**	(40)
Earnings / (loss) for the period	**(196)**	79	**(138)**	(587)
Capital expenditure	**148**	137	**609**	584
Net operating earnings/(loss)	**(162)**	110	**38**	(372)
Depreciation	**280**	127	**600**	612
Amortisation	**–**	–	**4**	4
Net operating earnings / (loss) before interest, taxation, depreciation and amortisation (EBITDA)	**118**	237	**642**	244

CONTINUING OPERATIONS				DISCONTINUED OPERATIONS					
Other and Eliminations		Total		Construction and Engineering: South Africa and rest of Africa		Manufacturing and Processing		Total	
2020 Rm	2019 Rm	2020 Rm	2019 Rm	2020 Rm	2019 Rm	2020 Rm	2019 Rm	2020 Rm	2019 Rm
(67)	(122)	14 185	13 548	1 865	4 617	4 828	7 511	6 693	12 128
(16)	(71)	14 224	13 576	1 862	4 614	–	153	1 862	4 767
(52)	(52)	(51)	(41)	–	–	4 758	7 282	4 758	7 282
1	1	12	13	3	3	16	–	19	3
–	–	–	–	–	–	54	76	54	76
140	98	(13 305)	(12 764)	(2 007)	(4 704)	(4 595)	(7 160)	(6 602)	(11 864)
73	(24)	880	784	(142)	(87)	233	351	91	264
26	(3)	37	(8)	43	12	83	106	126	118
(289)	(304)	(1 217)	(1 331)	(73)	(330)	(357)	(586)	(430)	(916)
(3)	4	(17)	(34)	(2)	4	–	–	(2)	4
(193)	(327)	(317)	(589)	(174)	(401)	(41)	(129)	(215)	(530)
(15)	–	(147)	(163)	–	(6)	–	(72)	–	(78)
(21)	–	(21)	–	–	–	–	–	–	–
–	102	–	102	–	–	–	–	–	–
24	203	24	203	–	–	–	–	–	–
10	41	10	41	–	–	–	–	–	–
(15)	–	25	–	19	21	17	15	36	36
–	–	–	–	–	–	(13)	(51)	(13)	(51)
(210)	19	(426)	(406)	(155)	(386)	(37)	(237)	(192)	(623)
(242)	(345)	(319)	(372)	1	13	(111)	(47)	(110)	(34)
(452)	(326)	(745)	(778)	(154)	(373)	(148)	(284)	(302)	(657)
(39)	(93)	(80)	(149)	6	(94)	5	(2)	11	(96)
(491)	(419)	(825)	(927)	(148)	(467)	(143)	(286)	(291)	(753)
5	–	762	721	–	31	25	82	25	113
(193)	(327)	(317)	(589)	(174)	(401)	(41)	(129)	(215)	(530)
5	3	885	742	–	–	–	–	–	–
5	4	9	8	–	–	–	–	–	–
(183)	(320)	577	161	(174)	(401)	(41)	(129)	(215)	(530)

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6. SEGMENTAL REPORT continued

The Group operates in five principal geographical areas:

	2020 Revenue Rm	2019 Revenue Rm	2020 Segment assets Rm	2019 Segment assets Rm	2020 Capital expenditure Rm	2019 Capital expenditure Rm
South Africa	**10 019**	15 033	**6 485**	5 019	**638**	697
Rest of Africa including Mauritius	**509**	944	**201**	2 540	**1**	–
Australia	**6 129**	5 181	**3 632**	1 499	**–**	76
New Zealand	**2 751**	2 116	**741**	1 031	**70**	44
Southeast Asia	**1 417**	2 105	**534**	2 128	**45**	17
Other regions	**53**	297	**43**	65	**33**	–
	20 878	25 676	**11 636**	12 282	**787**	834

7. IMPAIRMENT

The Group performed an annual impairment test as at 30 June 2020. The test involves the assessment of internal and external qualitative factors for each CGU that may constitute an indicator of impairment. The test may be extended to individual assets in instances of underutilisation, obsolescence, physical damage or material decline in the economic performance of the assets. For Held for Sale CGUs, the Group performed a subsequent impairment assessment whereby the carrying values of the CGUs were remeasured at the fair value less costs of disposal in line with *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* (*IFRS 5*).

7.1 CGUs of the Group in the scope of *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*

Initial classification as Held for Sale

As detailed in the *note 5: Discontinued operations*, the Board made the decision in the prior year that the operating groups of the following reportable segments no longer form part of the overall long-term strategy of the Group:

- *Construction and Engineering: South Africa and rest of Africa*; and
- *Manufacturing and Processing*.

The intention of the Board to discontinue the operations of these reportable segments and the subsequent classification of the underlying assets and liabilities as Held for Sale are indicators of impairment – refer to *note 10: Assets and liabilities classified as Held for Sale*.

The following business units were deemed to be individual CGUs for which individual impairment assessments were performed in terms of *IFRS 5* at 30 June 2020:

Construction and Engineering: South Africa and rest of Africa

- Aveng Construction Ground Engineering (GEL).

Manufacturing and Processing

- Aveng Trident Steel
- Aveng Automation and Control Solutions (ACS)
- Aveng Duraset
- Aveng Infraset.

As at 30 June 2020, management determined the recoverable amounts of the CGUs within the *Construction and Engineering: South Africa and rest of Africa* and *Manufacturing and Processing* segments to be fair value less cost of disposal. The Group does not expect that the fair value less costs of disposal of the above mentioned CGUs differ materially from the value determined at 30 June 2019.

7. IMPAIRMENT continued

7.1 CGUs of the Group in the scope of *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* continued

Subsequent measurement

In the current year, the Group had finalised the sale of the following CGUs:

Construction and Engineering: South Africa and rest of Africa

- Aveng Construction Building and Civil Engineering;
- Aveng Construction Mechanical and Electrical; and
- Aveng Construction Rand Roads

Manufacturing and Processing

- Aveng Dynamic Fluid Control (DFC)

As at 30 June 2020, a disposal agreement for R5 million had been concluded for Aveng GEL. The effective date of the transaction is 1 July 2020. Refer to *note 17: Events after the reporting period*.

The Group used the binding offer to sell to determine the fair value less cost of disposal amount for the CGU at 30 June 2020. Based on the binding offer to sell, it has been determined that the carrying amount exceeds the fair value less costs to dispose, and a fair value adjustment in line with IFRS 5 amounting to R13 million was required. Refer to *note 10: Assets and liabilities classified as Held for Sale*.

7.2 Assets in the scope of *IAS 36 Impairments*

Goodwill arising on consolidation

A compulsory impairment assessment of goodwill allocated to the McConnell Dowell CGU was performed in the current year. The McConnell Dowell CGU falls under the *Construction and Engineering: Australasia and Asia* reportable segment. The recoverable amount of the CGU, being the value in use based on a discount rate of 12%, materially exceeded the carrying amount of the CGU and hence no goodwill impairment loss was recognised in the current year.

CGUs of the Group in the scope of *IAS 36 Impairments*

The Group performed an impairment assessment on the Aveng Moolmans CGU at 30 June 2020. No impairment was required for this CGU at 30 June 2020. Aveng Moolmans falls under the *Mining* reportable segment.

Other individual assets in the scope of IAS 36 Impairments

An impairment assessment was performed on plant and equipment accounted for in Aveng Moolmans.

An impairment assessment was performed on property, plant and equipment at Aveng Moolmans, which is part of the *Mining* reportable segment. As at 30 June 2020, the Group determined that there was an additional impairment of R132 million (30 June 2019: R163 million) required for Aveng Moolmans relating to individual assets in the scope of *IAS 36 Impairments*. The recoverable amount of these individual assets was based on their fair value less cost of disposal. The fair value of these assets falls within level 2 of the hierarchy identified in *IFRS 13*, and was calculated using the prices of similar assets within the market.

An impairment assessment was performed on intangible assets accounted for in *Other and Eliminations* determined that an impairment of R15 million was required.

Impairment charges of R10 million was recognised on the Group's investment in REHM Grinaker Property Co Limited and REHM Grinaker Construction Co Limited and R11 million was recognised on the Steeledale accounts receivable loan at 30 June 2020.

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8. HEADLINE LOSS

	2020		2019	
	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		**(1 119)**		(1 681)
Impairment of intangible assets	**15**	**15**	34	34
Impairment of property, plant and equipment	**132**	**132**	163	163
Impairment of property, plant and equipment – Held for Sale	**–**	**–**	44	44
Impairment of equity-accounted investments	**21**	**21**	–	–
Gain on disposal of assets Held for Sale	**(24)**	**(24)**	(203)	(203)
Gain on disposal of subsidiaries	**(10)**	**(10)**	(41)	(41)
Gain on disposal of property, plant and equipment	**(61)**	**(47)**	(36)	(36)
Loss on derecognition of components	**69**	**69**	124	124
Fair value adjustment on properties and disposal groups classified as Held for Sale	**13**	**13**	51	51
Headline loss		**(950)**		(1 545)
Diluted headline loss		**(950)**		(1 545)
HEPS from continuing and discontinued operations				
Headline loss per share – basic (cents)		**(4,9)**		(9,7)
Headline loss per share – diluted (cents)		**(4,9)**		(9,7)
Issued shares		**19 394,5**		19 394,5
Weighted average shares		**19 369,6**		15 995,5
Diluted shares		**19 369,6**		15 995,5

9. AMOUNTS DUE FROM / (TO) CONTRACT CUSTOMERS

	2020 Rm	2019 Rm
Uncertified claims and variations (underclaims)*[1]	652	1 031
Contract contingencies	(290)	(361)
Progress billings received (including overclaims)[2]	(1 285)	(771)
Uncertified claims and variations less progress billings received	(923)	(101)
Contract receivables[3]	2 121	1 916
Provision for expected credit loss – specific debtors	–	–
Provision for expected credit loss	(1)	(1)
Retention receivables[4]	49	36
	1 246	1 850
Amounts received in advance[5]	(5)	(42)
Net amounts due from contract customers	1 241	1 808
Disclosed on the statement of financial position as follows:		
Uncertified claims and variations*[1]	652	1 031
Contract contingencies	(290)	(361)
Contract and retention receivables	2 170	1 952
Provision for expected credit losses	(1)	(1)
Amounts due from contract customers	2 531	2 621
Progress billings received	(1 285)	(771)
Amounts received in advance	(5)	(42)
Amounts due to contract customers	(1 290)	(813)
Net amounts due from contract customers	1 241	1 808

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

[1] Includes revenue not yet certified – recognised over time / 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.

The balances included in the table above relate only to assets not Held for Sale. Refer to *note 10: Assets and liabilities classified as Held for Sale* for disclosure of the disposal groups' amounts due from / (to) contract customers classified as Held for Sale.

The net amounts due from contract customers includes R297 million (2019: R760 million) which is subject to protracted legal proceedings.

Notes to the summarised consolidated annual financial statements continued

for the year ended 30 June 2020

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

Expected credit losses

Amounts due from contract customers

As at 30 June 2020, the Group has amounts due from contract customers of R1 241 million (2019: R1 808 million) which is net of the provision for expected credit loss of R1 million (2019: R1 million).

Trade receivables

As at 30 June 2020, the Group has trade receivables of R6 million (2019: R3 million). The provision for expected credit loss relating to trade receivables is R3 million (2019: less than R1 million).

The provision for expected credit losses are only material for amounts due from contract customers and trade receivables. The Group has elected to measure the provision for ECL at an amount equal to lifetime ECLs.

Impact of COVID-19

The assessment of recoverability of amounts due from contract customers and trade receivables at 30 June 2020 has considered the impacts of COVID-19 and no material recoverability issues have been identified.

Set out below is the movement in the provision for expected credit losses:

	2020 Rm	2019 Rm
Opening balance	**1**	–
Initial adoption of *IFRS 9* ECL impairment model (1 July 2018)	**–**	6
Movement in the current year	*****	*
Classified as Held for Sale – transferred in / (out)	**3**	(5)
	4	1
Attributable to:		
Amounts due from contract customers	**1**	1
Trade receivables	**3**	*
	4	1

** Amounts less than R1 million.*

10. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

As disclosed in *note 5: Discontinued operations*, the outcome of the strategic review led to the Board's decision to exclude the following reportable segments from the Group's long-term strategy:

- *Construction and Engineering: South Africa and rest of Africa*; and
- *Manufacturing and Processing*.

These non-core reporting segments are presented as separately identifiable disposal groups and are disclosed as discontinued operations in the Group's statement of comprehensive earnings (refer to *note 6: Segmental report* and *note 5: Discontinued operations*).

Initial recognition

At initial recognition, the disposals were expected to occur within the succeeding 12 months; the assets and liabilities were classified as Held for Sale. The assets and liabilities of the disposal groups were allocated to their CGUs in the prior year and were subject to an impairment assessment prior to classification as Held for Sale. The recoverable amounts of all CGUs were assessed as the fair value less cost of disposal (refer to *note 7: Impairments*). On initial recognition, the proceeds from the sale were expected to equal the net carrying amounts. The carrying amounts of some of the assets in relation to the *Construction and Engineering: South Africa and rest of Africa* and *Manufacturing and Processing* disposal group, exceeded their fair value less cost of disposal after being classified as Held for Sale. An adjustment was recognised to present these assets at their fair value less costs of disposal in the prior year.

Sales finalised in the current year

Construction and Engineering: South Africa and rest of Africa

Aveng Construction Building and Civil Engineering

In August 2019, the Group, acting through its wholly owned subsidiary, Grinaker-LTA Proprietary Limited (GLTA), entered into a binding term sheet with Laula Consortium Proprietary Limited for the sale of the Aveng Construction Building and Civil Engineering business. The sale had an effective date of 1 November 2019 for a purchase price of R70 million, which will be received via an initial payment of R20 million settled in six equal monthly instalments, and a further R50 million which will be settled no later than the second anniversary of the effective date.

Aveng Construction Mechanical and Electrical

In October 2019, the disposal of the Aveng Construction Mechanical and Electrical business to Laula Consortium Proprietary Limited was announced. The sale was concluded in December 2019 with Aveng selling its 100% interest in Aveng Grinaker-LTA Proprietary Limited for a purchase price of R72 million which was received by the Group in full.

Aveng Construction Rand Roads

Rand Roads was disposed of to Ultra Asphalt Proprietary Limited for R37,5 million. The sale was concluded with an effective date of 2 December 2019.

Aveng Construction Ground Engineering (GEL)

The disposal of GEL was announced on 12 July 2019. This transaction did not proceed in its current form, as a result of the purchaser subsequently being unable to secure the requisite funding of R7,5 million.

In June 2020, Aveng has entered into a binding sale of business agreement with Ground Engineering Proprietary Limited for the sale of GEL as a going concern for R5 million with an effective date of 1 July 2020. Refer to *note: 17: Events after the reporting period.*

Notes to the summarised consolidated annual financial statements continued

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10. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE continued

Sales finalised in the current year continued

Manufacturing and Processing Segment

Aveng Dynamic Fluid Control

In July 2019, the disposal of DFC to Copaflo Proprietary Limited was announced. The sale was concluded in September 2019, whereby the CGU was sold for R125 million, subsequently reduced to R114 million, and is subject to working capital adjustment.

Sales not finalised in the current year

Despite announcing the sale of Aveng Infraset in the prior year, the Group has determined that unforeseen challenges (including the negative effects of COVID-19 on the sales process) outside the control of management have prevented the execution of this sale and the sales on the remaining assets. Due to the dynamic nature of these businesses and the complex environment in which they operate, several of the assets have not been sold by year end.

In the preceding 12 months there have been numerous expressions of interest, and a number of non-binding offers for cash generating units (CGUs) within the disposal groups, however the Group did not receive reasonable offers to purchase all of the remaining CGUs. The delay in the finalisation of sales were due to events and circumstances beyond the control of management; including but not limited to the significant impact of COVID-19 on the ability to obtain the best value for the remaining assets, and the corresponding uncertainty within the market brought about during lockdown.

Management continues to remain committed to the disposal plan previously announced to dispose of the remaining non-core disposal groups and continues to actively locate appropriate buyers. The overall plan to dispose of the assets remains but the planned manner in which the assets will be disposed of has been revised during the year. The appropriate level of management remains committed to a plan to sell the CGUs and expect that the sales will be concluded within the next 12 months.

At year end, these assets remain available for immediate sale in their present condition subject only to terms that are usual and customary for sales of such assets. Management continues to actively market the assets for sale at prices that are reasonable in relation to their current fair value which leads management to conclude that it is highly probable that the sale of the remaining assets within non-core operating segments will be concluded in the next 12 months.

As part of the extension to the period to complete the sales, the continued support by the Board and plan by management to locate appropriate buyers indicates that it is highly unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Sales finalised after the year end

On 7 August 2019, Aveng announced that it had entered into a fully funded sale of business agreement with Videx Wire Products Proprietary Limited for the sale of the Aveng Duraset Alrode business as a going concern. The Proposed Transaction was subject to a number of consents and conditions precedent, as outlined in the SENS announcement. All consents and conditions precedent were fulfilled except the approval of the relevant competition authorities. In November 2019, the South African Competition Commission formally prohibited the Proposed Transaction. As a result, the agreement between Aveng and Videx was terminated.

Subsequent to year end, management reached an agreement to dispose of the Aveng Duraset Alrode business as a going concern subject to certain conditions precedent. The proposed transaction is limited to the sale of the Duraset Alrode operation and product portfolio which includes all assets and liabilities of Duraset Alrode.

10. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE continued

Sales finalised after the year end continued

Subsequent to year end, management reached an agreement to dispose of the Aveng Duraset Westonaria business as a going concern subject to certain conditions precedent. The proposed transaction is limited to the sale of the Aveng Duraset Westonaria operation and product portfolio which includes all assets and liabilities of Aveng Duraset Westonaria

Refer to *note 17: Events after reporting period* for additional information.

Assets transferred into assets Held for Sale

Construction and Engineering: South Africa and rest of Africa – Equity-accounted investments

Equity-accounted investments (REHM Grinaker Construction Co Limited and REHM Grinaker Properties Co Limited) accounted for under the *Construction and Engineering: South Africa and rest of Africa* reportable segment were classified as Held for Sale during the current year. The carrying amounts of some of these investments exceeded their fair values less cost of disposal prior to being classified as Held for Sale leading to the recognition of impairment losses (refer to *note 7: Impairments* for further details regarding the disclosures in terms of *IFRS 13 Fair Value Measurement*).

Assets transferred out of assets Held for Sale

Construction and Engineering: South Africa and rest of Africa – Infrastructure Investments

The assets classified as Held for Sale amounting to R117 million, no longer met the classification requirements to be Held for Sale as the Group did not receive reasonable offers to purchase the assets in the current year. Even though the investment properties do not meet the *IFRS 5* subsequent measurement criteria at 30 June 2020, management remains committed to dispose of these assets per the strategy announced in the prior years. The assets were transferred from non-current assets Held for Sale back to infrastructure investments.

Construction and Engineering: South Africa and rest of Africa – Equity-accounted Investments

The investment in *Oakleaf Holdings 86 Proprietary Limited* no longer met the classification requirements of Held for Sale and was transferred from assets Held for Sale. Even though the investment properties do not meet the *IFRS 5* subsequent measurement criteria at 30 June 2020, management remains committed to dispose of this investment per the strategy announced in the prior years. The asset was transferred from non-current assets Held for Sale back to equity-accounted investments.

Subsequent measurement

While there have been a number of unforeseen challenges executing on these sales transactions in the year, the extension of the classification of the remaining assets within non-core operating segments as Held for Sale is supported by management's continued commitment by the Board to the disposal plan previously announced. The overall plan to dispose of the assets remains but the planned manner in which the assets will disposed of has been revised during the year. Management expects that the sales will be concluded within the next 12 months.

Subsequent to initial classification as Held for Sale, the Group remeasured the assets at their fair value less costs of disposal. In the case where the carrying amount exceeded the fair value less costs of disposal, an adjustment was recognised to present these assets at the lower value. In the case where a binding offer had been received by 30 June 2020 for the sale of an asset, the fair value less costs of disposal is determined based on the value of the offer received, less costs required to dispose of the assets.

Notes to the summarised consolidated annual financial statements continued

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10. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE continued

Subsequent measurement continued

In the case where the fair value less costs of disposal exceed the carrying amount, an adjustment could be recognised. The adjustment is subject to a limit on the amount of any gain that can be recognised as a result of an increase in fair value less costs to sell before disposal. The maximum increase (and therefore gain) that can be recognised is the cumulative amount of impairment losses recognised in accordance with *IFRS 5* and previously in accordance with *IAS 36*. In this regard, an adjustment of R13 million was recognised on Aveng Construction Ground Engineering at 30 June 2020.

	2020 Rm	2019 Rm
Assets Held for Sale	**2 309**	3 843
Liabilities Held for Sale	**(2 051)**	(3 436)
	258	407
Movement during the year		
Opening balance	**407**	693
Adoption of *IFRS 16* accounting standard:		
Non-current assets*	**926**	–
Non-current liabilities**	**(926)**	–
Movements in:		
Non-current assets	**(85)**	(20)
Current assets	**(1 276)**	(416)
Non-current liabilities	**265**	19
Current liabilities	**965**	558
Sale of assets Held for Sale	**(111)**	(224)
Adjustment to fair value less cost of disposal***	**(13)**	(51)
Transferred from / to:		
Transfer to assets classified as Held for Sale	**13**	–
Transfer from assets classified as Held for Sale	**93**	(152)
Net assets Held for Sale	**258**	407

* *An amount of R926 million was included in the Held for Sale property, plant and equipment at 1 July 2019 as part of the adoption of IFRS 16.*

** *An amount of R926 million was included in the Held for Sale borrowings and other liabilities at 1 July 2019 as part of the adoption of IFRS 16.*

*** *No impact on other comprehensive earnings in the current year.*

10. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE continued

Subsequent measurement continued

As at 30 June 2020, the disposal groups and individual assets classified as Held for Sale were stated at fair value less costs to dispose and comprised the following:

30 June 2020	Construction and Engineering: South Africa and rest of Africa – Disposal group Rm	Manufacturing and Processing – Disposal group Rm	Total Rm
ASSETS			
Non-current assets			
Intangible assets	–	8	8
Property, plant and equipment	17	956	973
Equity-accounted investments	13	–	13
	30	964	994
Current assets			
Inventories	–	839	839
Derivative instruments	–	9	9
Amounts due from contract customers	2	6	8
Trade and other receivables	1	458	459
	3	1 312	1 315
TOTAL ASSETS	33	2 276	2 309
LIABILITIES			
Non-current liabilities			
Borrowings and other liabilities	–	694	694
Employee-related payables	1	7	8
	1	701	702
Current liabilities			
Amounts due to contract customers	–	7	7
Borrowings and other liabilities	–	131	131
Employee-related payables	2	52	54
Trade and other payables	–	461	461
Provision for unallocated fair value adjustments	13	683	696
	15	1 334	1 349
TOTAL LIABILITIES	16	2 035	2 051
Net assets Held for Sale	17	241	258

Notes to the summarised consolidated annual financial statements continued

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10. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE continued

Subsequent measurement continued

As at 30 June 2019, the disposal groups and individual assets classified as Held for Sale were stated at fair value less costs to dispose and comprised the following:

30 June 2019	Construction and Engineering: South Africa and rest of Africa – Disposal group Rm	Manufacturing and Processing – Disposal group Rm	Total Rm
ASSETS			
Non-current assets			
Intangible assets	–	22	22
Property, plant and equipment	265	69	334
Equity-accounted investments*	32	–	32
Infrastructure investments	119	–	119
	416	91	507
Current assets			
Inventories	12	1 646	1 658
Amounts due from contract customers	397	4	401
Trade and other receivables	96	1 181	1 277
	505	2 831	3 336
TOTAL ASSETS	921	2 922	3 843
LIABILITIES			
Non-current liabilities			
Borrowings and other liabilities	–	1	1
Employee-related payables	34	7	41
	34	8	42
Current liabilities			
Amounts due to contract customers	218	6	224
Borrowings and other liabilities	–	1	1
Employee-related payables	112	77	189
Trade and other payables	700	1 494	2 194
Financial liabilities	–	1	1
Provision for unallocated fair value adjustments	–	785	785
	1 030	2 364	3 394
TOTAL LIABILITIES	1 064	2 372	3 436
Net assets Held for Sale	(143)	550	407

** The investment in Oakleaf Investment Holdings 86 Proprietary Limited classified as Held for Sale is disclosed and presented under the Construction and Engineering: South Africa and rest of Africa reporting segment disposal group as it forms part of Aveng Capital Partners investment portfolio.*

11. BORROWINGS AND OTHER LIABILITIES

	Notes	2020 Rm	2019 Rm
Borrowings and other liabilities comprises:			
Interest-bearing borrowings held at amortised cost	11.1	**1 883**	2 145
Lease liabilities	11.2	**497**	–
Total borrowings and other liabilities		**2 380**	2 145

11.1 Borrowings held at amortised cost

	2020 Rm	2019 Rm
Borrowings held at amortised cost comprises:		
Credit and term facilities	**1 708**	1 870
Asset-backed financing arrangements	**175**	275
Total borrowings held at amortised cost	**1 883**	2 145
Payment profile		
– within one year	**893**	695
– between two and five years	**990**	1 450
	1 883	2 145
Interest rate structure		
Fixed and variable (interest rates)		
Fixed – long term	**422**	414
Fixed – short term	**72**	129
Variable – long term	**568**	1 036
Variable – short term	**821**	566
	1 883	2 145

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11. BORROWINGS AND OTHER LIABILITIES continued

11.1 Borrowings held at amortised cost continued

Description	Terms	Rate of interest	2020 Rm	2019 Rm
Credit and term facilities				
Revolving credit facility*	Repayable September 2021	1M JIBAR + 4,89%	**558**	550
Revolving credit facility*	Repayable September 2021	Fixed rate of 13,986%	**316**	281
Term facility*	Repayable June 2021	1M JIBAR + 5,02%	**818**	858
Term loan facility denominated in ZAR*	Repayable monthly ending April 2021	Fixed interest rate of 10,58%	**16**	32
Working Capital Credit Facility	Repayable monthly on a revolving facility basis	2,9% plus 0,5% margin	**–**	49
Super Senior Liquidity Facility #2*	Settled October 2019	1M JIBAR + 4,21%	**–**	100
Asset-backed financing arrangements				
Facility of AUD6 million	Monthly instalments ending October 2024	Fixed interest rate of 2,99% to 7,60%	**24**	59
Facility denominated in ZAR	Monthly instalments ending in February 2022	Fixed interest rate of 8%	**2**	4
Facilities denominated in ZAR	Monthly instalments ending in August 2022	South African prime	**10**	14
Facility of AUD6 million	Monthly instalments ending July 2022	Fixed interest rate of 4,6%	**73**	–
Hire purchase facility denominated in USD	Monthly instalments ending August 2021	Fixed interest rate of 6,70%	**34**	86
Hire purchase agreement denominated in ZAR	Monthly instalments ending April 2021	Fixed interest rate of 12,27%	**4**	10
Facility of AUD12 million	Monthly instalments ending November 2020	Fixed interest rate of 4,60%	**25**	70
Hire purchase agreement denominated in ZAR	Monthly instalments ending August 2020	South African prime plus 3,00%	**3**	18
Hire purchase agreement denominated in ZAR	Settled in November 2019	South African prime less 1,70%	**–**	9
Hire purchase agreement denominated in ZAR	Settled in September 2019	Fixed interest rate of 10%	**–**	5
Total interest-bearing borrowings			**1 883**	2 145

* *These loans are in terms of the Second Amended and Restated Common Terms of Agreement (CTA) and the signed amendment letter on 27 August 2019 with the South African Banking Group. Subsequent to year end, a debt restructuring and recapitalisation of Aveng Limited was required in order to increase the likelihood of a sustainable outcome for all stakeholders. The restructuring and deferral of the payments of the above facilities were agreed upon on the basis that the Group, SA lenders and the largest shareholder sign an irrevocable credit approved term sheet. Refer to* note 4: Going Concern *and* note 17: Events after the reporting period *for the details relating to the restructuring and details of the restructured facilities.*

Unutilised borrowing facilities

At 30 June 2020, the Group had available R483 million, (including bank overdraft facilities of R181 million) (2019: R302 million) of unutilised borrowing facilities.

11. BORROWINGS AND OTHER LIABILITIES continued

11.1 Borrowings held at amortised cost continued

Asset-backed financing arrangements

Construction and Engineering: Australasia and Asia

The operating segment entered into asset-backed finance arrangements to fund the acquisition of various items of plant and machinery.

The total asset-backed finance facilities amounted to AUD10 million (2019: AUD13 million). The amount outstanding on these facilities as at year end was AUD10 million (2019: AUD13 million) and is equivalent to R122 million (2019: R129 million). These asset-backed arrangements were secured by plant and equipment with a net carrying amount of R123 million (2019: R69 million).

Mining

The operating segment entered into various asset-backed 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 August 2022. The total amount outstanding on these facilities amounted to R53 million (2019: R178 million). Equipment with a net carrying amount of R224 million (2019: R321 million) has been pledged as security for the facility.

The following is summarised financial information of the Group's asset-backed financing arrangements:

	2020 Rm	2019 Rm
Asset-backed financing arrangements are payable as follows:		
Minimum payments due		
– within one year	**93**	203
– in two to five years	**94**	125
Less: Future finance charges	**(12)**	(21)
Present value of minimum payments	**175**	307

11.2 Lease liabilities

The table below represents only the lease liabilities not Held for Sale, recognised for the first time under *IFRS 16 Leases*. Refer to *note 10: Assets and liabilities classified as Held for Sale* for disclosure of the disposal groups' lease liabilities classified as Held for Sale.

	2020 Rm	2019 Rm
Lease liabilities are payable as follows:		
Minimum lease payments due		
– within one year	**208**	–
– in two to five years	**287**	–
– more than five years	**106**	–
Less: Future finance charges	**(104)**	–
Present value of minimum lease payments	**497**	–
Non-current lease liabilities	**323**	–
Current lease liabilities	**174**	–

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12. CONTINGENT LIABILITIES AND ASSETS

Contingent liabilities at the reporting date, not otherwise provided for in interim results, arise from performance bonds and guarantees issued in:

	2020 Rm	2019 Rm
South Africa and rest of Africa		
Guarantees and bonds (ZARm)	**1 018**	1 491
Parent company guarantees (ZARm)	**30**	30
	1 048	1 521
Australasia and Asia		
Guarantees and bonds (AUDm)	**290**	270
Parent company guarantees (AUDm)	**22**	44
	312	314

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.

13. DISPOSAL OF SUBSIDIARIES

Manufacturing and Processing disposal group

On 30 September 2019, the Group concluded the sale of the following subsidiaries for R44 million cash:

- Vent-O-Mat Australia Proprietary Limited (Australia)
- Aveng Indústria E Comércio De Válvulas Do Brasil Limitada (Brazil)
- RF Valves Osakeyhtiö (Finland)
- RF Valves, Incorporated (USA).

All of the subsidiaries formed part of the *Manufacturing and Processing* disposal group. The subsidiaries were neither considered an operating segment nor a separate major line of business or geographical area.

30 June 2020	Vent-O-Mat Australia Proprietary Limited Rm	Aveng Indústria E Comércio De Válvulas Do Brasil Limitada Rm	RF Valves Osakeyhtiö Rm	RF Valves, Incorporated Rm
Net cash impact of sale				
Total assets (excluding cash and bank balances)	25	3	20	97
Property, plant and equipment, net of accumulated depreciation and impairment losses	2	*	1	20
Inventories	17	3	13	44
Trade and other receivables, net of provisions	6	–	6	33
Cash and bank balances	*	*	*	*
Total liabilities	(24)	(4)	(13)	(59)
Trade and other payables	(13)	(4)	(4)	(12)
Lease liabilities	(2)	*	–	(15)
Provision for unallocated fair value adjustment	(9)	–	(9)	(32)
Net assets sold	1	(1)	7	38
Gain / (loss) on disposal of subsidiary	7	1	1	(10)
Net proceeds received in cash	8	–	8	28
Total proceeds received in cash	8	–	8	28
Less: Transaction costs paid**	*	*	*	*

* *Amounts less than R1 million.*
** *Transaction costs incurred relating to this transaction were expensed.*

Notes to the summarised consolidated annual financial statements continued

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13. DISPOSAL OF SUBSIDIARIES continued

Construction and Engineering: South Africa and rest of Africa disposal group

On 1 December 2019, the Group concluded the sale of the following subsidiaries for R72 million cash:

- Grinaker-LTA Proprietary Limited
- Grinaker-LTA (Botswana) Proprietary Limited
- Aveng Namibia Proprietary Limited.

Grinaker-LTA Proprietary Limited owned 100% of Grinaker-LTA (Botswana) Proprietary Limited and Aveng Namibia Proprietary Limited. These were sold as part of the sale. All these subsidiaries formed part of the *Construction and Engineering: South Africa and rest of Africa* disposal group. The subsidiaries were neither considered an operating segment nor a major line of business or geographical area.

30 June 2020	Grinaker-LTA Proprietary Limited Rm	Grinaker-LTA (Botswana) Proprietary Limited Rm	Aveng Namibia Proprietary Limited Rm
Net cash impact of sale			
Total assets (excluding cash and bank balances)	**154**	**23**	**9**
Property, plant and equipment, net of accumulated depreciation and impairment losses	**12**	**–**	**3**
Inventories	**1**	**–**	**–**
Taxation receivable	**–**	**4**	**–**
Amounts due from contract customers	**138**	**19**	**6**
Trade and other receivables, net of provisions	**3**	**–**	*****
Cash and bank balances	**–**	**–**	**–**
Total liabilities	**(106)**	**(19)**	**–**
Amounts due to contract customers	**(13)**	**(12)**	**–**
Trade and other payables	**(73)**	**(6)**	**1**
Employee-related payables	**(20)**	**(1)**	**(1)**
Net assets sold	**48**	**4**	**9**
Gain on disposal of subsidiary	**9**	**–**	**2**
Net proceeds received in cash	**57**	**4**	**11**
Total proceeds received in cash	**57**	**4**	**11**
Less: Transaction costs paid**	*****	*****	*****

* *Amounts less than R1 million.*

** *Transaction costs incurred relating to this transaction were expensed.*

13. DISPOSAL OF SUBSIDIARIES continued

Construction and Engineering: South Africa and rest of Africa disposal group continued

On 25 June 2019, Aveng Water Proprietary Limited was sold for R61 million cash. Aveng Water Proprietary Limited formed part of the *Construction and Engineering: South Africa and rest of Africa* disposal group. The subsidiary was neither considered an operating segment nor a separate major line of business or geographical area.

30 June 2019	Aveng Water Proprietary Limited Rm
Net cash impact of sale	
Total assets (excluding cash and bank balances)	20
Property, plant and equipment, net of accumulated depreciation and impairment losses	*
Inventories	6
Amounts due from contract customers	15
Trade and other receivables, net of provisions	(1)
Cash and bank balances	*
Total liabilities	(34)
Amounts due to contract customers	2
Trade and other payables	(36)
Net assets sold	(14)
Gain on disposal of subsidiary	41
Add back: Associated obligation	34
Net proceeds received in cash	61
Total proceeds received in cash	63
Less: Transaction costs paid**	(2)

* *Amounts less than R1 million.*

** *Transaction costs incurred relating to this transaction were expensed.*

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14. TAXATION

	2020 Rm	2019 Rm
Major components of the taxation expense		
Current taxation		
Local income taxation – current period	**1**	56
Local income taxation – recognised in the current taxation for prior periods	**14**	(1)
Foreign income taxation or withholding taxation – current period	**49**	36
Foreign income taxation or withholding taxation – recognised in the current taxation for prior periods	**(4)**	23
	60	114
Deferred taxation		
Deferred taxation – current period	**71**	130
Deferred taxation – arising from prior period adjustments	**(62)**	–
Deferred taxation – foreign tax rate change	**–**	1
	9	131
	69	245

South African income taxation is calculated at 28% (2019: 28%) of the taxable income for the year. Taxation in other jurisdictions is calculated at the prevailing rates.

15. NON-CASH AND OTHER MOVEMENTS

	2020 Rm	2019 Rm
Impairment loss on goodwill, property, plant and equipment and intangible assets	**147**	241
Impairment loss on equity-accounted investments	**21**	–
Claims write-down	**227**	–
Gain on sale of assets Held for Sale	**(24)**	(203)
Gain on sale of subsidiaries	**(10)**	(41)
Gain on disposal of property, plant and equipment	**(61)**	(36)
Fair value adjustment on properties and disposal groups classified as Held for Sale	**13**	51
Unrealised foreign exchange losses on borrowings and other liabilities	**(5)**	1
Realised foreign exchange gain	**(12)**	–
Movements in foreign currency translation	**(212)**	(44)
Derecognition of components included in property, plant and equipment	**69**	124
Increase in long-term loan receivable	**(43)**	–
Movement in equity-settled share-based payment reserve	**–**	1
Gain on redemption of convertible bond	**–**	(102)
	110	(8)

16. FAIR VALUE OF ASSETS AND LIABILITIES

The Group measures the following financial instruments at fair value:

- Infrastructure investments
- Forward exchange contracts (FECs).

Infrastructure investments

The Group measures its remaining infrastructure investment, Dimopoint Proprietary Limited at fair value through profit or loss. The investments in Imvelo Concession Company Proprietary Limited and Firefly Investments 238 Proprietary Limited were classified as Held for Sale in the prior year – refer to *note 10: Non-current assets and liabilities classified as Held for Sale*.

(i) 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
- Market comparable yields applicable to the underlying investment property portfolio.

(ii) Imvelo Concession Company Proprietary Limited (Imvelo)

Methodology

The value of the Group's share in Imvelo was determined by calculating the present value of the projected equity cash flows related to the Group's 30% shareholding. A risk-adjusted discount rate of 17,0% was applied. The projected equity cash flows comprise dividends, shareholder loan interest and principal payments and advances of equity. The cash flows were sourced from the independently audited and lender approved base case financial model. The financial model is based upon a 27-year concession term in accordance with the unitary payment, indexation and other provisions of the Public Private Partnership Agreement with the Department of Environmental Affairs.

Valuation parameters and assumptions

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

- In estimating the fair value of Imvelo, a discount rate of 17,0% was applied
- Free cash flows based on the underlying long-term contractual equity distributions (dividends) and shareholder loan interest and principal repayments.

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16. FAIR VALUE OF ASSETS AND LIABILITIES continued

Infrastructure investments continued

(iii) 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 14,8% was applied
- Free cash flows based on the underlying long-term contractual revenue streams and operating cost forecasts
- Long-term revenue and cost indexation (ZAR based) of 2,1% and 1,2% (EUR based) respectively.

Forward exchange contracts (FECs)

Valuation methodology

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

Fair value hierarchy

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

	Carrying amounts Rm	Fair value Rm	Valuation reference to observable prices level 1 Rm	Valuation based on observable inputs level 2 Rm	Valuation based on unobservable inputs level 3 Rm
2020					
Assets and liabilities recognised at fair value					
Assets					
Infrastructure investments	**259**	**259**	**–**	**–**	**259**
FECs	**10**	**10**	**–**	**10**	**–**
FECs (Held for Sale)	**9**	**9**	**–**	**9**	**–**
2019					
Assets and liabilities recognised at fair value					
Assets					
Infrastructure investments	142	142	–	–	142
Infrastructure investments (Held for Sale)	119	119	–	–	119
Liabilities					
FECs	1	1	–	1	–
FECs (Held for Sale)	1	1	–	1	–

16. FAIR VALUE OF ASSETS AND LIABILITIES continued

Fair value hierarchy continued

The Group uses level 2 valuation techniques to measure foreign exchange contracts 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 period.

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

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 or loss Increase Rm	Potential effect recorded directly in profit or loss Decrease Rm
Infrastructure investments				
Risk-adjusted discount rate:				
– Dimopoint Proprietary Limited	**16,0%**	**0,5%**	**(4)**	**4**
– Imvelo Concessions Company Proprietary Limited	**17,0%**	**0,5%**	**(2)**	**2**
– Firefly Investments 238 Proprietary Limited	**14,8%**	**0,5%**	**(2)**	**2**

17. EVENTS AFTER THE REPORTING PERIOD

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

17.1 Sale of non-core businesses and assets

Subsequent to year end, disposals were concluded in respect of GEL, Duraset, REHM Grinaker, Infraset Pietermaritzburg and various properties totalling R54 million. These disposals did not require separate disclosure in terms of the JSE Listings Requirements.

17.2 Settlement of Majuba power station claim

On 11 September 2020, the High Court in Johannesburg ordered Eskom SOC to pay R40 million plus interest and legal costs to the Group for its work on a rail yard and coal offloading facility at Majuba power station in Mpumalanga. Payment was received in October 2020.

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17. EVENTS AFTER THE REPORTING PERIOD continued

17.3 Supreme Court ruling on N2 Mtentu River bridge project

On 13 November 2020, the Supreme Court of Appeals (SCA) dismissed the application to prevent the South African National Roads Agency SOC Limited (SANRAL) from claiming guarantees from the joint venture between Aveng Africa Proprietary Limited and Strabag International GmbH (ASJV) in respect of the Mtentu River Bridge project. This ruling relates to the guarantees only and has not established any entitlement to retain the proceeds of any guarantee call. Subsequently, SANRAL claimed guarantees amounting to R267 million on 23 November 2020. Aveng will be liable for 50% of the guarantee value. This project remains the subject of litigious matters against SANRAL following from the well-publicised disruptions to the contract by local communities that led to the termination of the contract. The ASJV remains confident that its decision to terminate the contract was contractually valid and also the right thing to do in the circumstances faced at Mtentu, particularly in light of the persistent indications that the unrest had not abated at the time of termination.

Further, on 1 September 2020 a unanimous full bench of the Mthatha High Court upheld the ASJV's appeal against an order obtained by SANRAL in 2019 against the ASJV, whereby SANRAL had attempted to prevent the removal of plant and equipment from the construction site by the ASJV and other contractors. Ultimately the ASJV was vindicated on appeal, with the full bench of the Mthatha High Court finding that in light of the uncontested evidence presented by the ASJV, the order that SANRAL had sought against the ASJV was not appropriate.

17.4 Restructuring and recapitalisation

Aveng has engaged with various stakeholders, including its South African lenders, the holders of notes issued through iNguza Investments (RF) Limited, its largest shareholder and others over the course of the 2020 calendar year. Following the year-end, the Company reached an agreement on a restructure that will result in the introduction of a minimum R300 million new capital, the restructure of the CTA debt package into a smaller restructured term and overdraft facility with a maturity of three years and the settlement of the balance thereof by way of a cash settlement or a specific issuance of new ordinary shares and the early settlement of the iNguza notes by way of a cash settlement at a discount or the participation in the restructured term debt. The agreements to give effect to the transaction were signed by the parties on 27 November 2020, including:

- the largest shareholder executing the recapitalisation term sheet including a commitment to fully underwrite a rights offering of new equity at 1.5 cents per share, up to R300 million;
- the South African lenders executing the recapitalisation term sheet, including the restructured debt and the settlement of R570 million by way of an issue of shares at 5 cents per share or the cash settlement of 31 cents for every R1 held subject to the shareholders approving a new issuance of shares at the upcoming AGM;
- the holders of the requisite majority of iNguza notes executing irrevocable letters of undertaking in support of early redemption of the iNguza notes by way of a cash settlement of 31 cents for every R1 held or participation in the South African lenders restructured debt; and
- SA lenders executing an extension letter, to extend its existing CTA facilities to 30 June 2022. It is expected that this agreement will be superseded by the restructured term and overdraft facilities described above once the restructure and recapitalisation transaction has received the necessary shareholder approval and has been implemented.

Commentary

AVENG LIMITED
(Incorporated in the Republic of South Africa)
(Registration number: 1944/018119/06)
ISIN: ZAE000111829
SHARE CODE: AEG
(Aveng, the Company or the Group)

RESULTS FOR THE YEAR ENDED 30 JUNE 2020

POSITIONING FOR LONGER-TERM STRATEGIC GOALS

Aveng remained resilient and continued to achieve key objectives from its 2018 strategic action plan, despite the impacts of the coronavirus (COVID-19) pandemic. The first half of the financial year saw the Group restoring operational profitability with both McConnell Dowell and Moolmans generating profits and cash. During the second half, the COVID-19 pandemic resulted in lockdowns to various degrees in different sectors and jurisdictions, disrupting operational performance across the Group and reducing operating profit by approximately R380 million.

Despite the significant uncertainty and additional volatility created by the health and economic crises experienced during the 2020 financial year, the Group continues to build resilience across the organisation and was buoyed by its key strategic levers of geographic diversification, improving operational performance and the firm commitment of leadership and employees.

Management remains committed to the execution of the strategy, implemented in 2018, with the following objectives implemented:

- Ensure a long-term capital structure
- Create liquidity by selling non-core assets
- Unlock value from core businesses.

SALIENT FEATURES

Group
5% increase in core revenue to R14,2 billion
41% increase in core work in hand to R26.8 billion
52% reduction in operating loss to R532 million
100% improvement in OFCF* to R5 million outflow
Zero Fatalities during the financial year

McConnell Dowell
60% increase in work in hand to AUD1,8 billion
5 Years LTI-free at Built Environs
80% of projects achieving bid margins
50% increase in cash in hand to AUD140 million
90% of 2021 revenue secured

Moolmans
R410 million turnaround in operating profit to R38 million despite COVID-19
4 contracts renegotiated or extended at favourable rates
New leadership driving performance improvement
95% improvement in OFCF to R191 million inflow
81% of 2021 revenue secured

**OFCF – operating free cash flow*

Commentary continued

The execution of the strategy continued to deliver positive results and we are confident of market opportunities and growth potential for McConnell Dowell and Moolmans. These core businesses remain profitable, cash generative and strategically well positioned to be sustainable in both the current COVID-19 environment and beyond. Diversification across customers, geographies, industry sectors and commodities provide risk mitigation in the current environment. These businesses offer long-term sustainable earnings and generate sufficient cash flows. However, given the current circumstances, the Group's external environment remains unpredictable due to the COVID-19 pandemic.

RESPONSE TO COVID-19

The unprecedented challenges of COVID-19 were dealt with effectively as the Group demonstrated its agility and resilience in response to the pandemic. The Group's diversity across customers, geographies, industry sectors and commodities provided risk mitigation and reduced the impact on the overall business performance. Despite this risk mitigation, the COVID-19 pandemic created a liquidity shortfall during April and May 2020. This shortfall was managed through a short-term facility of R200 million by the Group's South African lenders banks which was repaid in August 2020 and the savings contributed by staff, management and the Board taking salary and wage cuts of approximately R168 million. The Board extends its thanks to all employees for this contribution in such exceptional circumstances.

The Group responded proactively to the restrictions and lockdowns by taking measures to protect its employees, operations and its financial position. Initiatives, including prudent cash management, working capital management and cost reductions were implemented across the Group. As a result of the restrictions and measures imposed, the Group's business units were severely impacted during the reporting period. Operations were restricted in South Africa, New Zealand and South-East Asia for varying lengths of time. Australian operations continued throughout the period.

Support from clients varied from compensation for costs incurred and time lost, to only allowing extensions of time for project delays resulting from COVID-19 restrictions and measures.

Due to the uncertainty of the pandemic, and the response by governments and societies around the globe, it is expected that the commercial close-out of all COVID-19 related impacts will take some time to quantify.

POST-YEAR-END BALANCE SHEET RESTRUCTURE AND RECAPITALISATION

Aveng has engaged with various stakeholders, including its South African lenders, the holders of notes issued through iNguza Investments (RF) Limited, its largest shareholder and others over the course of the 2020 calendar year. Following the year end, the Company reached an agreement on a restructure that will result in the introduction of a minimum R300 million new capital, the restructure of the Common Terms Agreement (CTA) debt package into a smaller restructured term and overdraft facility with a maturity of three years and the settlement of the balance thereof by way of a cash settlement or a specific issuance of new ordinary shares and the early settlement of the iNguza notes by way of a cash settlement at a discount or the participation in the restructured term debt. The agreements to give effect to the transaction were signed by the parties on 27 November 2020, including:

- the largest shareholder executing the recapitalisation term sheet including a commitment to fully underwrite a rights offering of new equity at 1,5 cents per share, up to R300 million;
- the South African lenders executing the recapitalisation term sheet, including the restructured debt and the settlement of R570 million by way of an issue of shares at 5 cents per share or the cash settlement of 31 cents for every R1 held;
- the holders of the requisite majority of iNguza notes executing irrevocable letters of undertaking in support of early redemption of the iNguza notes by way of a cash settlement of 31 cents for every R1 held or participation in the South African lenders restructured debt; and
- South African lenders executing an extension letter to extend its existing CTA facilities to 30 June 2022. It is expected that this agreement will be superseded by the restructured term and overdraft facilities described above. Once the restructure and recapitalisation on transaction has received the necessary shareholder approval and been implemented.

Following a multi-year journey, this transaction will allow the Group to reset its capital structure, deleveraging the balance sheet by more than R1 billion, extending the Group's maturity profile to three years, and simultaneously materially improving the Group's South African liquidity pool.

Following this transformational event, Aveng believes that the remaining debt is sustainable. Importantly, this transaction not only provides Aveng the capital structure flexibility to complete its non-core asset sale program and to wind down its remaining exposure to discontinued businesses, but also sets the Group on a path to pursue its strategy around the Group's core businesses, McConnell Dowell and Moolmans, which have returned to profitability and where Aveng sees further business improvement prospects and growth opportunities.

NON-CORE ASSET DISPOSALS

The Group continued its non-core asset disposal process and as at 30 June 2020 had received cash proceeds of R768 million. The following disposals were concluded during the financial year:

- October 2019 – Dynamic Fluid Control for R114 million
- November 2019 – Building and Civil Engineering for R70 million
- December 2019 – Mechanical and Electrical for R72 million
- December 2019 – Rand Roads for R37 million
- Other properties for R15 million

Following the sales of non-core assets, the Group continues to collect all South African outstanding performance and retention bonds thus continuing to de-risk the balance sheet. Outstanding bonds decreased by 32% to R1,1 billion in the year.

Commentary continued

During the course of the year, management continued to negotiate with members of the consortium who had entered into a binding agreement to acquire the Infraset business. The buyer was unable to meet the condition precedent pertaining to funding and this transaction has lapsed. Aveng has continued to engage other parties who have expressed interest in the Infraset business.

Subsequent to year end, disposals were concluded in respect of GEL, Duraset, REHM Grinaker, Infraset Pietermaritzburg and various properties totalling R54 million. These individual disposals to unrelated parties did not require separate disclosure in terms of the JSE Listings Requirements.

IMPROVING PERFORMANCE OF CORE BUSINESSES

McConnell Dowell and Moolmans, which represent the future of Aveng, operate in growth markets and their diversification across customers, geographies, industry sectors and commodities mitigate risk in uncertain environments.

McConnell Dowell

McConnell Dowell has built a reputation as being a highly technically skilled tier-two contractor with engineering in its DNA. The business unit was consistently profitable and continues to focus on specialised projects in Australia, New Zealand and Pacific Islands and Southeast Asia. The business improved its operational performance in the first half of the year by delivering a net operating earnings (EBIT) of AUD5,5 million in FY20 H1. Following the outbreak of the COVID-19 pandemic in the second half of the financial year and the responses by various governments in the Australasia region to impose restrictions and lockdowns, McConnell Dowell management responded quickly and proactively and took appropriate decisions to limit the impact of COVID-19.

Despite the effects of COVID-19 on its operations, MCD achieved an underlying operating profit of AUD6,0 million before impairments for the full year ending 30 June 2020. The Board of McConnell Dowell was mindful of the emerging uncertainties of COVID-19 and took the decision to settle two long standing legacy claims with a view to enhancing the resilience of the underlying business by improving available liquidity at a time of greater uncertainty. These settlements assist this objective by releasing cash in the short term, reducing ongoing legal costs, removing litigation uncertainty and allowing management to focus on the growth objectives of McConnell Dowell. The resolution of these legacy claims is a significant achievement at a critical time and enhances cash flow and strengthens the Groups liquidity position.

The settlement of the two long-standing legacy claims, resulted in a cash inflow of AUD42.5 million (R508 million) and a non-cash claims write down of AUD19,5 million (R225 million). This resulted in a reported EBIT loss of AUD13 million (R162 million loss).

Work in hand grew by 60% to AUD1,8 billion at 30 June 2020, which supports 90% of budgeted revenue for FY21. The value of preferred tender status increased to AUD1,4 billion.

The business remains focused on pursuing opportunities in its areas of specialisation and in which it has a proven track record of success.

MOOLMANS

The Moolmans performance for the year was impacted by COVID-19 related closures on all operations for the period from March to June 2020. Despite the impact of the COVID-19 related shut down, Moolmans reported an operating profit of R38 million for the year, representing a significant turnaround from the operating loss of R372 million in the previous financial year.

Moolmans responded immediately to the COVID-19 crisis by implementing a response plan across all operations in consultation with customers. The business focused on protecting the lives of employees while maintaining a responsible level of operational activity and service delivery.

All domestic mining operations ceased in March in line with lockdown stage 5 regulations and placed into care and maintenance. Moolmans rapidly demobilised 350 items of heavy earthmoving equipment and engaged with customers to plan the safe and efficient remobilisation of operations once the Lockdown was lifted. At the beginning of May, Moolmans commenced the remobilisation of all open cut operations, with the exception of Gamsberg and the Platreef underground operations which was at 50% of capacity. The business continued to progressively restore operational capacity during the remainder of the financial year. Standard operating procedures were implemented to increase personal safety at work and reduce the spread of infections.

The renegotiation and extension of contracts on more favourable terms, the substantial turnaround in the performance of a number of loss-making projects, the successful completion of the Platreef shaft sinking project and sound operational performance at the Klipspruit project all contributed positively. The underperformance on the Gamsberg contract has subsequently been addressed and detailed recovery plans implemented on the Tshipi and Kolomela projects.

Work in hand remained flat at R4,9 billion at 30 June 2020 and supports 81% of budgeted revenue of FY21.

NON-CORE BUSINESSES

Construction and Engineering: South Africa and rest of Africa

This operating segment comprises Aveng Construction: South Africa and Aveng Capital Partners

All of the Aveng Construction: South Africa business units, were sold with effect from November and December 2019. Subsequent to year end, GEL sold effective 1 July 2020.

Revenue decreased by 59% to R1,9 billion (June 2019: R4,6 billion) as business units were disposed of and the business reported a net operating loss of R174 million (June 2019: R401 million loss). The project management office continues to manage and implement the significant task of closing out the non-core disposals and ensuring that the Group complies with all statutory, legal, technical, commercial and human resources obligations.

Manufacturing and Processing

This operating segment comprises Trident Steel and Aveng Manufacturing.

Trident Steel

Revenue decreased by 36% largely as a result of the restructuring of the tube and Roodekop merchanting divisions.

Commentary continued

The business reported an operating profit of R14 million (June 2019: R39 million). Trident Steel generated R172 million operating free cash flow, mainly as a result of a bulk sale of inventory. This sale allowed Aveng to monetise a significant part of its inventory and significantly reduce its working capital. The business is now strategically well positioned as a steel services centre business in various prime locations in South Africa.

Aveng Manufacturing

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

Aveng Manufacturing reported a 36% decrease in revenue to R1,3 billion (June 2019: R2,0 billion) and a net operating loss of R55 million (June 2019: R168 million loss). Major contributors to the performance were:

- the disposal of Rail and DFC resulted in lower revenue compared to the previous period;
- a continued weak market coupled with operational underperformance in Duraset and Infraset; and
- continued profitability by ACS.

MARKET REVIEW

McConnell Dowell's core market sectors in Australia continue to grow at a steady pace, driven largely by public sector investment in the engineering, construction and infrastructure development sectors. McConnell Dowell is benefiting from an expanding pipeline of transport, infrastructure and energy projects and strong demand for its specialist capabilities in marine, rail, hydropower and dams. Growing investment in transport infrastructure is contributing to an increase in project work and contract sizes. McConnell Dowell has a solid baseload of work in Victoria and South Australia and is expanding its footprint in New South Wales, Western Australia and Queensland.

Similarly, in New Zealand, McConnell Dowell's core markets are supported by significant public sector investment in transport, housing and water infrastructure to serve the country's growing population. Key growth drivers include government plans to develop and maintain road and rail networks. The government signalled its intention in 2019 to take advantage of the low cost of borrowing by expediting approximately NZ$6,9 billion of spending on infrastructure projects.

Opportunities in the transport, energy and wastewater infrastructure sectors in Southeast Asia were heavily impacted by COVID-19 lockdowns in Singapore and Indonesia. The region's medium-term to long-term outlook remains promising and McConnell Dowell's competitive position may benefit from the recent withdrawal of some international competitors from the heavily contested markets. However, opportunities continue to be tempered by political uncertainty.

Conditions in the South African mining sector, now Aveng's primary domestic market, are mixed. While global and domestic opportunities in open cut and underground mining remain promising, the South African market has underperformed relative to its potential due to ongoing policy uncertainty and weak economic conditions which inhibit investment.

The few remaining South African based non-core businesses which have not yet been disposed of were heavily impacted by weakness in their operating markets.

FINANCIAL PERFORMANCE

Aveng reported an improved headline loss of R950 million (June 2019: R1.5 billion), and a net loss of R1,1 billion (June 2019: R1,7 billion). The basic loss per share was 5,8 cents compared to 10,5 cents in the comparative period and the headline loss per share was 4,9 cents (June 2019: 9,7 cents loss per share).

Statement of comprehensive earnings

In the first half of the year, both of the core operations of the Group contributed to a significant improvement in the Group's performance. McConnell Dowell and Moolmans (including the corporate office) recorded revenue of R6,9 billion (December 2018: R6,8 billion) resulting in R99 million net operating earnings (December 2018: R307 million loss) courtesy of a R283 million turnaround at Moolmans.

In the second half of the year, both core businesses were adversely affected by the impact of COVID-19. A net operating loss of R416 million was recorded in the second half. Moolmans was responsible for R79 million of the loss (with R66 million being attributed to COVID-19 losses), while operations at McConnell Dowell resulted in a R221 million loss. Included in the McConnell Dowell loss was a non-cash claims write-down of R225 million relating to the settlement of Gold Coast and Wheatstone claims. Excluding claims write-offs at McConnell Dowell, both core business produced underlying operating profits.

Non-core businesses continued to underperform in challenging market conditions and was exacerbated in second half of the financial year by the COVID-19, particularly, in South Africa. These businesses recorded a net operating loss of R215 million (June 2019: R530 million loss).

Group revenue of R20.9 million decreased by 19% from prior year as the Group proceeded with planned non-core asset disposals in the first half and was adversely impacted by COVID-19 in the second half of the year.

Net operating loss decreased to R532 million (June 2019: R 1 119 million) of which R14 million was operating profit in the first of half, contrasted by an operating loss of R546 million in the second half of the year.

R127 million overhead saving was realised on the restructuring of the corporate office, curtailment of consulting fees and other cost-saving initiatives.

Net finance charges reduced to R299 million excluding IFRS 16 notional interest of R130 million (June 2019: R406 million). Finance expenses decreased in comparison to prior year due the early conversion of bonds. Finance income reduced due to lower cash balances in high interest earning regions.

Statement of financial position

Property, plant and equipment (PPE) increased with right-of-use assets to the value of R1,5 billion, of which R926 million related to Held for Sale PPE, following the implementation of IFRS 16 Leases. The modified retrospective approach was

Commentary continued

adopted with the effect of initially applying the standard at the date of transition, 1 July 2019. The balance of continuing operations right-of-use assets amounted to R439 million at 30 June 2020 after depreciation.

The Group incurred **capital expenditure**, including non-core assets, of R787 million (June 2019: R834 million), applying R781 million (June 2019: R730 million) to replace and R6 million (June 2019: R104 million) to expand property, plant and equipment. The majority of the amount was spent as follows:

- R148 million at McConnell Dowell, relating to specific projects across the various businesses
- R609 million at Moolmans, primarily as a result of investment in existing fleet

Assets held for sale decreased by R1,5 billion to R2,3 billion (June 2019: R3,8 billion) mainly due to the sale of Aveng DFC, Buildings and Civils, Mechanical and Electrical and Rand Roads. The transitional impact of IFRS 16 Leases resulted in recognition of right-of-use assets of R926 million, which were included in the assets held for sale as at 1 July 2019.

Borrowings and other liabilities, pre-IFRS 16, decreased by R262 million to R1,9 billion from June 2019. The implementation of IFRS 16 Leases resulted in a R1,5 billion increase in lease liabilities of which R926 million related to held for sale lease liabilities. The balance of continuing operations' lease liabilities amounted to R497 million (R323 million non-current liabilities and R174 million current liabilities) at 30 June 2020. The discontinued operations lease liabilities amounted to R854 million after considering lease payments and notional interest.

Liabilities Held for Sale decreased by R1,4 billion to R2,0 billion (June 2019: R3,4 billion) due to the movement in working capital associated with non-core assets and the disposal of businesses, mentioned above. The transitional impact of IFRS 16 resulted in recognition of lease liabilities of R926 million, which were included in the liabilities held for sale as at 1 July 2019.

Amounts due from contract customers for the Group (non-current and current) reduced by R90 million to R2,5 billion due to the settlement of Wheatstone and Gold Coast claims, as well as the unwinding of contracts. An amount of R78 million relating to Aveng Construction: South Africa offset the claims as it was transferred out of Held for Sale.

Accumulated losses decreased by R184 million on 1 July 2019 as a result of the implementation of IFRS 16. The decrease is as a result of the reversal of the operating lease straight-lining liability which was previously included in the trade and other payables balance at 30 June 2019. The recognition of a right-of-use asset and lease liability eliminates the need for a straight-lining liability, which is reversed at the date of transition, 1 July 2019.

Operating free cash flow amounted to an outflow of R5 million (June 2019: R1 billion outflow) mainly due to:

- cash inflow of R506 million (June 2019: R362 million outflow) in McConnell Dowell;
- cash inflow of R191 million (June 2019: R201 million outflow) at Moolmans;

- cash outflow of R544 million (June 2019: R488 million outflow) at Construction and Engineering: South Africa;
- cash inflow at Aveng Manufacturing of R84 million (June 2019: R131 million outflow);
- R247 million of proceeds on disposal of non-core assets;
- net finance charges of R417 million; and
- taxation paid of R50 million.

Cash and bank balances (net of bank overdrafts) decreased to R1,3 billion (June 2019: R1,6 billion) and the net debt position increased to R1 billion (June 2019: R540 million). The increase in net debt position was mainly attributable to the recognition of an additional R497 million recognised as a result of IFRS 19 Leases lease liabilities. Excluding the impact of IFRS 16 Leases, net debt increased marginally to R552 million.

SAFETY

The Group achieved its goal of zero fatalities during the year and continues to experience satisfactory performance trends across its key safety, health and environment indicators. This is largely attributable to disciplined compliance with safety health and environment management systems and local regulatory requirements, management visibility and employee engagement on project sites, increased identification, monitoring and reporting of hazards and ensuring that lessons learnt inform future performance.

The total recordable injury frequency rate (TRIFR) was 0,74 against the Group's target of 0,82 and demonstrates a trend of continuous improvement over the past four years. The use of the TRIFR indicator is in line with industry standards and includes fatalities, lost time injuries, restricted workday cases and medical treatment cases. The TRIFR is calculated using 200 000 man hours as the baseline for its frequency rate.

Work in hand

Aveng enters the new financial year with work in hand of R26,8 billion for the McConnell Dowell and Moolmans businesses which represents a 41% year-on-year growth. This secured 90% of the budgeted revenue for the core operations in 2021. In addition, both businesses have significant pipelines of tenders under evaluation or pending contract award.

OUTLOOK

Aveng will focus on completing the balance sheet restructure and recapitalisation transaction in order to deleverage the business and improve the Group's South African liquidity pool.

Although Aveng's external environment remains unpredictable due to COVID-19, the Board and management are committed to the Group's strategy and confident that its leadership and core businesses will continue to achieve their growth plans. This, in turn, will create sustainable long-term value for our stakeholders. Key focus areas for FY21 will include the following:

- Implementation of the restructure and recapitalisation plan
- Continued improvement of operational performance in McConnell Dowell and Moolmans
- Grow and optimise quality of work in hand
- Navigate COVID-19 challenges for the foreseeable future through:
  - managing liquidity; and
  - protect livelihood and well-being of employees

Commentary continued

- Positive cash generation
- Further reduction in Group cost structure
- Complete the disposal of non-core assets
- Close out of project management office function.

Disclaimer

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

By order of the Board

SJ Flanagan
Group chief executive officer

AH Macartney
Group finance director

Date of release: 30 November 2020

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AVENG

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