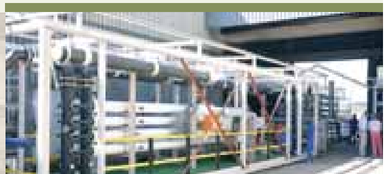
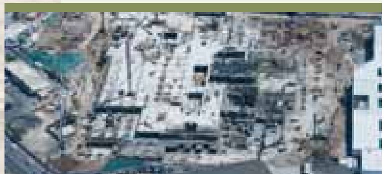
Unaudited group results for the
6 months ended 31 December 2010





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# KEY FIGURES

- **REVENUE: R16.9bn**

  Stable at R16.9bn

- **OPERATING PROFIT: R513m**

  Decreased by 25%

- **HEADLINE EARNINGS: R416m**

  Declined by 35%

- **NET CASH: R5.4bn**

  Down from R7.5bn (30 June 2010)

- **ORDER BOOK: R30.7bn**

  Marginal decrease from R31.1bn at end June 2010

# INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2010

| | 31 December 2010 Unaudited Rm | 31 December 2009 Unaudited Rm | 30 June 2010 Audited Rm |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | **5 563** | 5 114 | 5 146 |
| Goodwill and other intangibles | **1 436** | 1 103 | 1 085 |
| Investment in associates and joint ventures | **97** | 128 | 117 |
| Available-for-sale investments | **125** | 12 | 94 |
| Deferred tax | **461** | 446 | 982 |
| | **7 682** | 6 803 | 7 424 |
| **Current assets** | | | |
| Inventories | **1 877** | 1 732 | 2 027 |
| Trade and other receivables | **6 345** | 4 931 | 6 863 |
| Taxation receivable | **53** | 30 | — |
| Cash and cash equivalents | **6 146** | 8 499 | 7 828 |
| | **14 421** | 15 192 | 16 718 |
| **TOTAL ASSETS** | **22 103** | 21 995 | 24 142 |
| **EQUITY AND LIABILITIES** | | | |
| **Capital and reserves** | | | |
| Equity attributable to ordinary shareholders of Aveng Limited | **11 895** | 10 949 | 12 215 |
| Non-controlling interests | **5** | 6 | 5 |
| | **11 900** | 10 955 | 12 220 |
| **Non-current liabilities** | | | |
| Interest-bearing borrowings | **2** | 92 | 28 |
| Deferred tax | **188** | 133 | 655 |
| | **190** | 225 | 683 |
| **Current liabilities** | | | |
| Trade and other payables | **9 323** | 10 094 | 10 720 |
| Interest-bearing borrowings | **690** | 721 | 339 |
| Taxation payable | **—** | — | 180 |
| | **10 013** | 10 815 | 11 239 |
| **TOTAL EQUITY AND LIABILITIES** | **22 103** | 21 995 | 24 142 |
| Net debt to equity ratio (%) | **(46)** | (70) | (61) |
| Net asset value per ordinary share (cents) | **3 017** | 2 765 | 3 085 |

# INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 31 December 2010

| | **Six months ended 31 December 2010 Unaudited Rm** | Six months ended 31 December 2009 Unaudited Rm | % change | Year ended 30 June 2010 Audited Rm |
|---|---|---|---|---|
| **Revenue** | **16 892** | 16 832 | 0 | 33 981 |
| **Operating profit before depreciation and amortisation** | **1 053** | 1 219 | (14) | 3 171 |
| Depreciation | **531** | 527 | | 1 063 |
| Amortisation of intangibles | **9** | 8 | | 17 |
| **Operating profit before non-trading items** | **513** | 684 | (25) | 2 091 |
| Non-trading items | ***** | 2 | | (13) |
| **Operating profit** | **513** | 686 | (25) | 2 078 |
| Share of profits and losses from associates and joint ventures | **7** | 22 | | 61 |
| Income from investments | **197** | 242 | | 472 |
| **Operating income** | **717** | 950 | (25) | 2 611 |
| Finance cost | **20** | 12 | | 17 |
| **Profit before taxation** | **697** | 938 | (26) | 2 594 |
| Taxation | **281** | 301 | | 722 |
| **Profit for the period** | **416** | 637 | (35) | 1 872 |
| **Other comprehensive (loss)/income for the period** | | | | |
| Exchange differences on translation of foreign operations | **(97)** | 9 | | 44 |
| **Total comprehensive income for the period** | **319** | 646 | (51) | 1 916 |
| **Profit attributable to:** | | | | |
| Equity holders of Aveng Limited | **416** | 640 | | 1 873 |
| Non-controlling interests | ***** | (3) | | (1) |
| **Profit for the period** | **416** | 637 | (35) | 1 872 |
| **Total comprehensive income attributable to:** | | | | |
| Equity holders of Aveng Limited | **319** | 649 | | 1 917 |
| Non-controlling interests | ***** | (3) | | (1) |
| **Total comprehensive income for the period** | **319** | 646 | (51) | 1 916 |
| **Determination of headline earnings** | | | | |
| Profit for the year attributable to equity holders of Aveng Limited | **416** | 640 | | 1 873 |
| Non-trading items net of taxation | ***** | | | 13 |
| Surplus on disposal of property, plant and equipment | | (2) | | |
| **Headline earnings** | **416** | 638 | (35) | 1 886 |

**Amounts less than R1 million*

# INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

| for the six months ended 31 December 2010 | **Six months ended 31 December 2010 Unaudited Rm** | Six months ended 31 December 2009 Unaudited Rm | Year ended 30 June 2010 Audited Rm |
|---|---|---|---|
| **Operating activities** | | | |
| Cash retained from operations | **513** | 686 | 2 078 |
| Depreciation and amortisation | **540** | 535 | 1 079 |
| Non-cash items | **(146)** | (55) | 41 |
| **Cash generated by operations** | **907** | 1 166 | 3 198 |
| Income from investments | **197** | 242 | 472 |
| (Increase)/decrease in working capital | **(805)** | 582 | (1 026) |
| **Cash generated by operating activities** | **299** | 1 990 | 2 644 |
| Finance cost | **(20)** | (12) | (17) |
| Taxation paid | **(440)** | (605) | (834) |
| **Cash available from operating activities** | **(161)** | 1 373 | 1 793 |
| Dividends paid | **(565)** | (577) | (579) |
| **Net cash flows (utilised in)/from operating activities** | **(726)** | 796 | 1 214 |
| **Investing activities** | | | |
| Property, plant and equipment purchased – expansion | **(206)** | (94) | (926) |
| – replacement | **(728)** | (474) | (253) |
| Proceeds on disposal of property, plant and equipment | **43** | 13 | 62 |
| Purchase of subsidiaries | **(285)** | — | (23) |
| Purchase of other investments | **(31)** | — | (82) |
| Investments in associate companies | **14** | (6) | 47 |
| **Net cash flows utilised in investing activities** | **(1 193)** | (561) | (1 175) |
| **Financing activities** | | | |
| Long-term borrowings repaid | **(159)** | (112) | (90) |
| Share repurchase | **(74)** | — | — |
| **Net cash flows utilised in financing activities** | **(233)** | (112) | (90) |
| **Net (decrease)/increase in cash and cash equivalents** | **(2 152)** | 123 | (51) |
| Cash and cash equivalents at beginning of year | **7 631** | 7 601 | 7 601 |
| Foreign currency translation reserve movement | **106** | 109 | 81 |
| **Cash and cash equivalents at end of period** | **5 585** | 7 833 | 7 631 |
| Cash and cash equivalents as per balance sheet | **6 146** | 8 499 | 7 828 |
| Overdrafts disclosed under short-term borrowings | **(561)** | (666) | (197) |
| **Cash and cash equivalents at end of period** | **5 585** | 7 833 | 7 631 |

## SHARE INFORMATION

| | **Six months ended 31 December 2010 Rm** | Six months ended 31 December 2009 Rm | % change | Year ended 30 June 2010 Rm |
|---|---|---|---|---|
| **EARNINGS PER SHARE (CENTS)** | | | | |
| Earnings | **107.0** | 164.1 | (35) | 480.3 |
| Earnings – diluted | **98.3** | 148.3 | (34) | 441.3 |
| Headline | **106.8** | 163.4 | (35) | 483.6 |
| Headline – diluted | **98.2** | 147.7 | (34) | 444.4 |
| **NUMBER OF SHARES (MILLIONS)** | | | | |
| In issue | **394.3** | 396.0 | | 396.0 |
| Weighted average | **388.8** | 390.0 | | 390.0 |
| Diluted weighted average | **423.2** | 431.3 | | 424.4 |
| **DIVIDEND PER SHARE (CENTS)** | **Nil** | Nil | | 145.0 |

## CAPITAL EXPENDITURE

| | **Six months ended 31 December 2010 Rm** | Six months ended 31 December 2009 Rm | Year ended 30 June 2010 Rm |
|---|---|---|---|
| Expansion | **206** | 94 | 926 |
| Maintenance | **728** | 474 | 253 |
| | **934** | 568 | 1 179 |
| **Commitments for future capital expenditure:** | | | |
| Contracted | **40** | 36 | 525 |
| Authorised, but not contracted for | **63** | 12 | 541 |
| | **103** | 48 | 1 066 |

# SEGMENTAL ANALYSIS

## BUSINESS SEGMENTATION

| Revenue | Six months ended 31 December 2010 Unaudited Rm | Six months ended 31 December 2009 Unaudited Rm | Year ended 30 June 2010 Audited Rm |
|---|---|---|---|
| **Construction and Engineering** | | | |
| South Africa and Africa | **4 993** | 5 398 | 10 782 |
| Australasia and Pacific | **6 419** | 6 453 | 12 981 |
| **Total Construction and Engineering** | **11 412** | 11 851 | 23 763 |
| Opencast mining | **1 788** | 1 559 | 3 261 |
| Manufacturing and Processing | **3 690** | 3 403 | 6 937 |
| Administration | **2** | 19 | 20 |
| | **16 892** | 16 832 | 33 981 |
| Operating profit | | | |
| **Construction and Engineering** | | | |
| South Africa and Africa | **253** | 249 | 673 |
| Australasia and Pacific | **133** | 269 | 595 |
| **Total Construction and Engineering** | **386** | 518 | 1 268 |
| Opencast mining | **208** | 139 | 365 |
| Manufacturing and Processing | **(24)** | 122 | 458 |
| Administration | **(57)** | (93) | (13) |
| | **513** | 686 | 2 078 |

# INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| for the six months ended 31 December 2009 (Unaudited) | Share capital and share premium Rm |
|---|---|
| **Balance at 1 July 2009** | **2 001** |
| Profit for the year | |
| Other comprehensive income/(loss) | |
| – Foreign currency translation | |
| **Total comprehensive income** | — |
| Dividends paid | |
| **Balance at 31 December 2009** | 2 001 |
| for the year ended 30 June 2010 (Audited) | |
| **Balance at 1 July 2009** | 2 001 |
| Profit for the year | |
| Other comprehensive income/(loss) | |
| – Foreign currency translation | |
| **Total comprehensive income** | — |
| Dividends paid | |
| Movement in treasury shares | * |
| Acquisition during the year | |
| Transfers | |
| **Balance at 30 June 2010** | 2 001 |
| for the six months ended 31 December 2010 (Unaudited) | |
| **Balance at 1 July 2010** | **2 001** |
| Profit for the year | |
| Other comprehensive income/(loss) | |
| – Foreign currency translation | |
| **Total comprehensive income** | — |
| Dividends paid | |
| Share repurchase | (74) |
| **Balance at 31 December 2010** | 1 927 |

**Amounts less than R1 million*

| Foreign currency translation reserve Rm | Other non-distributable reserve Rm | Retained income Rm | Total Rm | Non-controlling interests Rm | Total equity Rm |
|---|---|---|---|---|---|
| **(188)** | **62** | **8 990** | **10 865** | **21** | **10 886** |
| | | 640 | 640 | (3) | 637 |
| 8 | 1 | | 9 | | 9 |
| 8 | 1 | 640 | 649 | (3) | 646 |
| | | (565) | (565) | (12) | (577) |
| (180) | 63 | 9 065 | 10 949 | 6 | 10 955 |
| | | | | | |
| (188) | 62 | 8 990 | 10 865 | 21 | 10 886 |
| | | 1 873 | 1 873 | (1) | 1 872 |
| 43 | 1 | | 44 | | 44 |
| 43 | 1 | 1 873 | 1 917 | (1) | 1 916 |
| | | (567) | (567) | (13) | (580) |
| | | | * | | * |
| | | | — | (2) | (2) |
| | 5 | (5) | — | | — |
| (145) | 68 | 10 291 | 12 215 | 5 | 12 220 |
| | | | | | |
| **(145)** | **68** | **10 291** | **12 215** | **5** | **12 220** |
| | | 416 | 416 | * | 416 |
| (97) | * | | (97) | | (97) |
| (97) | * | 416 | 319 | * | 319 |
| | | (565) | (565) | * | (565) |
| | | | (74) | | (74) |
| (242) | 68 | 10 142 | 11 895 | 5 | 11 900 |

# NOTES

## 1. Corporate information

The interim consolidated financial statements of the Group for the six months ended 31 December 2010 were authorised for issue in accordance with a resolution of the directors on 9 March 2011.

Aveng Limited is a limited company incorporated and domiciled in the Republic of South Africa whose shares are publicly traded.

## 2. Basis of preparation and accounting policies

### Basis of preparation

The interim consolidated financial statements for the six months ended 31 December 2010 have been prepared in accordance with IAS 34 Interim Financial Reporting.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 30 June 2010.

### Significant accounting policies

The interim financial statements have been prepared in accordance with IAS 34 Interim Financial Statements and the Listings Requirements of the JSE Limited. The accounting policies adopted are consistent with those of the previous year, except for the adoption of IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions, IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments, Improvements to IFRSs (April 2009) and Improvements to IFRSs (May 2010). In addition, the Group has prospectively changed its accounting policy with regards to borrowing costs. Borrowing costs incurred in respect of qualifying assets will in future be capitalised to the asset. All other borrowing costs will still be expensed. The external auditors have not reviewed the financial results for the half-year ended 31 December 2010.

## 3. Segment Information

Revenue and expenses are attributed directly to the segments to which they relate. Segment assets include all operating assets used by a segment, and consist principally of property, plant and equipment, as well as current assets. Segment liabilities include all operating liabilities and consist principally of trade and other payables. These assets and liabilities are all directly attributable to the segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from the operating profit or loss in the consolidated financial statements.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

## 4. Impairments

The carrying amounts of assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, or when annual impairment testing of an asset is required, the recoverable amount is estimated as the higher of the fair value less cost to sell and the value in use.

In determining fair value less costs to sell, an appropriate valuation model is used. In assessing value in use, the expected future cash flows are discounted to the present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised whenever the carrying amount exceeds the recoverable amount. Impairment losses and reversal of impairment losses are separately disclosed in the profit or loss, above the income before tax subtotal.

For an asset that does not generate cash inflows that are largely independent of those from other assets, the recoverable amount is determined for the cash generating unit to which the asset belongs. An impairment loss is recognised whenever the carrying amount of the cash generating unit exceeds its recoverable amount.

A previously recognised impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior years.

Goodwill impairment losses are not reversed.

## 5. Income tax

The major components of income tax expense in the interim consolidated statement of comprehensive income are:

| | Six months ended 31 December 2010 Rm | Six months ended 31 December 2009 Rm | Year ended 30 June 2010 Rm |
|---|---|---|---|
| **Current income tax** | | | |
| Current income tax charge | **207** | 233 | 673 |
| **Deferred tax** | | | |
| Relating to origination and reversal of temporary differences | **74** | 68 | 49 |
| **Income tax expense** | **281** | 301 | 722 |

## 6. Property, plant and equipment

During the six months ended 31 December 2010, the Group acquired assets with a cost of R933.6 million (December 2009: R568.3 million) not including property and equipment acquired through a business combination.

## 7. Cash and cash equivalents

For the purpose of the interim consolidated statement of cash flows, cash and cash equivalents are comprised of the following:

| | Six months ended 31 December 2010 Rm | Six months ended 31 December 2009 Rm | Year ended 30 June 2010 Rm |
|---|---|---|---|
| Deposits and cash | **6 146** | 8 499 | 7 828 |
| Bank overdraft | **(561)** | (666) | (197) |
| | **5 585** | 7 833 | 7 631 |

## 8. Related party transactions

During the year the company and its subsidiaries, in the ordinary course of business, entered into various sale and purchase transactions with associates and joint ventures. Those transactions occurred under terms that are no less favourable than those arranged with third parties.

There were no related party transactions with directors or entities in which the directors have a material interest.

# OVERVIEW

The Group remains fully committed to achieving fatality free operations and continues to focus on improving safety culture so that "Home Without Harm, Everyone Everyday" becomes a way of life for everyone in the workplace. In spite of a drive to lift safety standards, Aveng regrets to report that there were six fatalities during the period under review; three were Group employees and three were employed by a subcontractor. The LTIFR rate was 0.29 which compared to 0.26 for the 2010 financial year.

The business environment for the six months to 31 December 2010 remained challenging. However the Aveng Group's broad exposure across the construction and engineering value chain, combined with its geographic diversification limited the impact of this difficult market on profitability. The Group's strong balance sheet and conservative approach to financial reporting are an advantage in these adverse trading conditions.

The South African Government's announcement of R808 billion to be spent on infrastructure projects in the medium term is encouraging for the industry. Aveng's South African construction order book has increasingly become more dependent on private sector projects, which have been relatively stable. More intense competition across all sectors has impacted on margins. Against this backdrop, it is pleasing that the Construction and Engineering: South Africa and Africa segment has reported marginally higher profits albeit from a lower revenue base.

The market in Australasia, the Pacific and South East Asia is stronger, with good order potential particularly in mining and natural gas. The Construction and Engineering: Australasia and Pacific segment delivered stable revenue although tough competition continued to put pressure on industry margins. Profit in the first half was negatively impacted mainly by the general tightening industry margins and two difficult projects. The December 2010 Australia floods has delayed projects across the value chain, which may impact on profit recognition, in the second half of the year. Although the full impact of the floods is still being assessed, McConnell Dowell incurred no major damage and some reconstruction opportunities could arise in the short term. In the domestic Manufacturing and Processing sector, steel volumes showed ongoing signs of recovery although in the absence of significant new infrastructure projects, volume increases in construction will be muted. This sector was affected by several steel price decreases in the first quarter of the financial year. Since the beginning of 2011, local steel prices have increased and support a more positive outlook for the second half of the year.

Strong commodity pricing as well as an increasing appetite for contract mining, especially in Africa supported the Opencast Mining segment.

## FINANCIAL REVIEW

Operating profit before depreciation and amortisation declined by 14% to R1.05 billion (2010: R1.2 billion). In the Construction and Engineering: South Africa and Africa segment, operating profit improved by 2%. The operating profit of Construction and

Engineering: Australasia and Pacific declined by 51% mainly due to losses on two major projects and a highly competitive market. The Opencast Mining segment showed a 13% decline in operating profit prior to the inclusion of the R87 million (net of VAT) proceeds in respect of the settlement of the Marikana (Aquarius Platinum) dispute. The operating profit of the Manufacturing and Processing segment was adversely effected by the difficult market and lower prevailing steel prices and declined by 31% compared to the corresponding period last year, excluding the impact of the Competition Commission settlement. As a result of the Steeledale settlement agreement with the Competition Commission of R129 million, as announced on SENS on 1 March 2011, this segment recorded an operating loss of R24 million.

In line with lower net cash balances and prevailing interest rates, net income from investments declined to R177 million (2010: R230 million).

The Group's cash flow from operating activities was affected by the tighter operating environment resulting in the cash generated by operations declining by 22% to R907 million (2010: R1.2 billion). In addition, the group experienced a cash outflow of R805 million in respect of working capital and reported a net cash position of R5.3 billion (30 June 2010: R7.5 billion). Major cash outflows since June 2010 include payments to shareholders consisting of a R574 million dividend and R74 million in respect of on market share repurchases. Capital expenditure and acquisitions amounted to R934 million. Unencumbered cash at the end of December 2010 amounted to R1.4 billion (30 June 2010: R3.4 billion)

Headline earnings declined by 35% to R416 million (2010: R638 million). Accordingly, the Group reported a commensurate change in headline earnings per share to 106.8 cents (2010: 163.4 cents). The number of shares in issue was reduced to 394.3 million (2010: 396.0 million) as a result of the share repurchase programme.

## OPERATIONAL REVIEW

### *Construction and Engineering*

The revenue of the Construction and Engineering segment (comprising Grinaker-LTA, E+PC and McConnell Dowell) declined by 4% to R11.4 billion (2010: R11.9 billion). The Construction and Engineering: South Africa and Africa segment operating margin improved to 5.2% (2010: 4.6%). This was however, diluted by a weaker performance from Construction and Engineering: Australasia and Pacific. The operating profit of this segment declined by 50% from the comparative period, resulting in a 25% reduction in the operating profit of the Construction and Engineering segment to R386 million (2010: R518 million).

The tightening of the South African market in the first half of the year proved even more challenging than anticipated. Grinaker-LTA reported an 8% decline in revenue to R5.0 billion (2010: R5.4 billion). Strong revenue growth from Underground Mining and Mechanical & Electrical was offset by lower activity levels in Building, Civil Engineering and Earthworks & Engineering. Revenue from the final accounting on some of the large infrastructure projects completed towards the end of the previous financial year benefited Grinaker-LTA, resulting in operating profit being marginally up in spite of the revenue decline. In summary, the divisions within Grinaker-LTA performed as follows:

- **Building** continued to be negatively impacted by lower activity with tenders being awarded at low or even zero margin. Good execution on all contracts ensured continued profitability.
- **Civil Engineering** focused heavily on delivery of key projects, including works on the Medupi and Kusile power stations.
- **Earthworks Engineering** maintained its profit base and made good progress on two substantial projects in Namibia.
- **Mining** translated positive industry fundamentals into solid, profitable revenue growth.
- **Mechanical & Electrical** continued to perform to plan with all divisions contributing to its strong performance.

Good progress was made by Grinaker-LTA on historical problem contracts, most of which are expected to be resolved by the end of the current financial year. In particular, proceedings in respect of the dispute in Gabon were concluded in favour of Grinaker-LTA.

E+PC's revenue was under pressure for the period, mainly due to the slow pace of project awards. Despite this, the business showed a significant improvement in operating profit through focused resource utilisation. Activity levels in the industrial water sector are pleasing and E+PC started engineering the second phase of the eMalahleni Water Treatment Plant, which it operates on behalf of the client. The operating group completed a second water treatment plant, the Optimum Coal Water Reclamation Plant in June 2010, which it also operates on behalf of the client. E+PC is currently negotiating the award of three mobile water treatment plants. E+PC's Operations division continues to grow in line with expectations although delays in mine commissioning have constrained revenue. New projects awarded during the year include a contract from Kenmare Resources to expand the Moma heavy sands project in Mozambique.

McConnell Dowell showed a 1% decline in revenue to R6.4 billion (2010: R6.5 billion). Revenue growth for the half year period was hampered by the strength of the Australian dollar against currencies in the territories where it operates and delays in the award of major projects. McConnell Dowell posted a 51% reduction in operating profit to R133 million (2010: R269 million), largely attributable to challenges encountered on two highly technical projects. This was exacerbated by the lower prevailing project margins resulting from competitive markets. In the Pipelines business unit, commencement of work on a substantial transmission pipeline network in the first phase of the Queensland Curtis LNG (QCLNG) project was delayed due to regulatory approvals and heavy unseasonal rains. However, prospects for the pipelines business unit are positive.

McConnell Dowell's strong performance on its offshore construction projects, particularly in Singapore, Middle East, Indonesia and New Zealand supported the division's profitability. Electrix continues to outperform.

Widespread flooding in Australia, which started in December 2010, only impacted the final weeks of the six months under review. While no major damage occurred, accessing projects proved difficult, with this anticipated to impact on performance in the second half of the financial year.

## *Opencast Mining*

Moolmans showed a 9% increase in revenue, excluding the positive impact of the Marikana settlement, operating profit decreased by 13% on the same basis.

Moolmans continued its growth trajectory, with revenues increasing by 9% to R1.7 billion (2010: R1.6 billion) despite the impact of the stronger Rand on foreign denominated revenue streams. This excludes the positive impact of the R87 million settlement in respect of the Marikana (Aquarius Platinum) dispute. Excluding this once off receipt, the operating group delivered a 13% decrease in operating profit from R139.4 million in 2010 to R121 million largely as a result of the stronger Rand.

The operating group is deriving benefits from its capital investment programme, with existing contracts having performed well, meeting all production and contractual obligations with an improved performance on its more challenging contracts in South Africa. Unseasonal heavy rains in South Africa and Zambia impacted operations in December 2010. New contracts awarded during the first half of the year include an initial three-year contract at the Geita Gold Mine in Tanzania for AngloGold Ashanti, which also marks the return of Moolmans to the region.

## *Manufacturing and Processing*

The Manufacturing and Processing segment (comprising Trident Steel and Aveng Manufacturing) delivered an 8% increase in revenue to R3.7 billion (2010: R3.4 billion) supported by relatively stable steel volumes. Steel product prices were subjected to several decreases during the period. This together with more competitive markets and after the settlement agreement in relation to the Steeledale matter led the operating group to a reported operating loss of R24 million (2010: operating profit of R122 million).

Aveng Manufacturing showed a 3% decline in revenue to R1.4 billion. Excluding the impact of the settlement, its contribution to Group operating profit was marginal. Lennings Rail Services delivered a good performance, underpinned by strong revenue growth with the extension of several rail maintenance contracts. It also won two rail yard contracts in Mozambique, which will start contributing in the second half of the financial year. Infraset performed well with muted activity in the infrastructure and building segments partially offset by stronger demand for Infraset's suite of concrete rail products. Duraset continued to operate in a highly competitive market and was also impacted by the steel price decreases. Although it supplied similar volumes on a year on year basis, Steeledale's performance was impacted by the impact of lower steel prices on gross profit margins and on inventory values. Steeledale has rationalised a number of manufacturing facilities and the Aveng Group is conducting an in-depth review of Steeledale and considering options to reposition these assets to achieve the required returns going forward. The acquisition of DFC, which manufactures valves for the water and mining sector, was effective from 1 October 2010 and performed in line with expectations.

Sales volumes of Trident Steel increased by 24%, leading to a 16% improvement in revenue to R2.3 billion (2010: R2.0 billion). Although the operating profit improved by 62% compared to the comparable period, its performance did not meet expectations. Steel price reductions in August and September 2010 led to a 5% decrease in the average price for the period under review. In the second quarter, monthly volumes recovered to similar levels as those last seen in 2008 and Trident Steel operated at full capacity. The operating profit of Trident Steel, was dampened by heightened competition and lower steel prices.

## STRATEGY REVIEW

The Aveng Group continues to reinforce its leadership position within the infrastructure value chain in South Africa and consolidate its position as a first tier player in Australia.

Multiple brands across business units and geographies have been streamlined under a new Aveng brand which became effective on 25 February 2011 and was implemented to create uniformity and better leverage synergies across the Group.

The Aveng Group continues to focus on value creation throughout the infrastructure value chain. This includes expansion into water, power and concessions in the short to medium term. Having significantly advanced its expertise in water treatment, the Group has launched a new division called Aveng Water to focus on the opportunities within the water treatment arena.

All operations continued to focus on efficiency initiatives and cost management programmes, particularly in the area of procurement. Aside from group-wide programmes managed by the corporate office, each operating group has implemented measures to manage overheads without compromising operational capability.

A R1.0 billion share repurchase programme was approved by shareholders at the Annual General Meeting in October 2010. Commencing in October 1 740 018 shares were repurchased at an average price of R42.26 and subsequently cancelled. The pace of repurchases was constrained by low trading volumes and a stronger share price during the period. Aveng will continue to responsibly review this programme which is aimed at enhancing shareholder value over the long term.

## COMPETITION MATTERS

Further to the Competition Commission's announcement on 1 February 2011 regarding its investigation into anti-competitive practices in the construction sector, and its invitation to firms to engage in settlement of contraventions of the Competition Act, Aveng has again confirmed its commitment to working with the Competition Commission. In addition to the numerous initiatives already put in place to uncover unlawful practices throughout the Group, new measures have been implemented to identify any other anti-competitive practices. Aveng has applied for corporate leniency for a number of transgressions, and will co-operate with the Commission in its fast track settlement process. However, until the conclusion of negotiations with the Commission, it is difficult to quantify any penalty that may be payable.

On 2 March 2011, the Competition Commission referred its investigation in the pilings market to the Competition Tribunal. While one of the respondents in this referral is Grinaker-LTA, through its geotechnical services division GEL, no relief is sought against the company as it was granted conditional immunity by the Competition Commission in 2009.

Further to the SENS announcement of 1 March 2011, Aveng (Africa) Limited has entered into a settlement agreement with the Competition Commission to settle the two complaints against Steeledale. Both complaints involved historical anti-competitive conduct. Aveng (Africa) Limited has agreed to pay an administrative penalty in the amount of R128.9 million, which represents 8% of Steeledale's annual turnover for the financial year ending 30 June 2008. The settlement is in full and final settlement of all alleged contraventions of the Competition Act by Steeledale that are the subject of the Commission's investigations and referrals in terms of both complaints.

## BOARD OF DIRECTORS

Having served three terms, Mr Vincent Mntambo retired from the Board with effect from 22 October 2010. The Board thanks Mr Mntambo for his contribution to Group matters during his tenure.

Ms Thoko Mokgosi-Mwantembe was appointed as an independent non-executive director with effect from 13 December 2010.

## OUTLOOK AND PROSPECTS

The two-year construction order book of the Aveng Group amounted to R32 billion at 31 January 2011, a marginal increase from R31.1 billion at the end of June 2010. The identified total project pipeline based on projects being targeted has remained constant at approximately R100 billion.

Grinaker-LTA has a two-year order book of R9 billion (31 January 2011), a decrease of 7% since June 2010. This indicates that revenue pressure will persist in the second half of the year.

McConnell Dowell's two year order book increased by 16% to R15.6 billion (31 January 2011) in line with the buoyant, albeit highly competitive, market in its target geographies and should support a better second half. The outlook for the Manufacturing and

Processing segment is more positive as a result of successive steel price increases since the beginning of 2011. While landscaping and building activity remains muted, local and international demand for cementitious products in the rail sector is increasing.

Although Moolman's order book has declined by 7% to R6.5 billion (31 January 2011 the outlook for the second half remains positive but may be impacted by exchange rate fluctuations. It has a strong track record across Africa and is well positioned to benefit from increased mining activities on the back of improved commodity prices as well as increasing recognition of the benefits of contract mining on the continent.

The Group anticipates that the challenging domestic construction market will continue to limit overall revenue growth, although this will be partially mitigated by the diversity of its operations. Since the beginning of 2011, local steel prices have increased to support a more positive outlook for the second half of the year in the manufacturing and processing part of our business. We are confident that we will continue to deliver improved returns to our shareholders over the medium term.

By order of the Board

| | | |
|---|---|---|
| **AWB Band** | **WR Jardine** | **HJ Verster** |
| (Chairman) | (Chief Executive) | (Financial Director) |

14 March 2011

## *DISCLAIMER*

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

## Diverse operational capability


**AVENG LIMITED**

Incorporated in the Republic of South Africa Registration number 1944/018119/06
Share code: AEG ISIN code: ZAE000111829

**DIRECTORS**

AWB Band* (Chairman), WR Jardine (Chief Executive Officer), HJ Verster (Financial Director), JJA Mashaba, DG Robinson (Australian), MA Hermanus*, RL Hogben*, TM Mokgosi-Mwantembe*, MJD Ruck*, KC Rumble*, NL Sowazi*, PK Ward* (*non-executive)

**COMPANY SECRETARY**

K Robinson

**REGISTERED OFFICE**

204 Rivonia Road, Morningside, Sandton, 2057

**REGISTRARS**

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BASTION GRAPHICS

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HOME WITHOUT HARM
EVERYONE EVERYDAY