Jane and Mulgoa Street Bridge – Australia

AVENG
Providing a better life

Reviewed interim condensed consolidated financial statements

for the six months ended 31 December 2019

SAFETY AND CARE | HONESTY AND INTEGRITY | CUSTOMER FOCUS | WORKING TOGETHER | PERFORMANCE EXCELLENCE

Salient features – financial performance

for the six months ended 31 December 2019

Revenue

R11,2 billion

Decrease from R13,4 billion
at December 2018

Operating profit

R14 million

Increase from R484 million loss
at December 2018

Losses attributable to equity holders of the parent

R168 million

Decrease from R918 million
at December 2018

Loss per share

0,9 cents

Decrease from 7,2 cents per share
at December 2018

Headline loss

R205 million

Decrease from R703 million (restated)
at December 2018

Headline loss per share

1,1 cents

Decrease from 5,5 cents per share
(restated) at December 2018

Operating free cash flow

R174 million
inflow

December 2018: R710 million outflow

Core two-year order book

R17,9 billion

Increase from R17,7 billion
at June 2019

Tshipi – South Africa

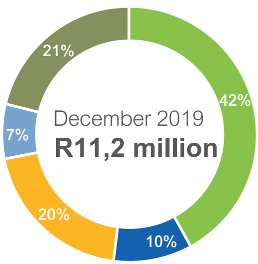
Salient features – segmental analysis

for the six months ended 31 December 2019

Net operating profit / (loss) – segmental analysis

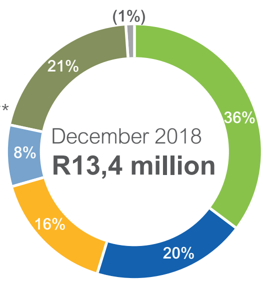
	Dec 2019 Rm	Dec 2018 Rm	June 2019 Rm
Construction and Engineering: Australasia and Asia	**59**	55	110
Mining	**117**	(166)	(372)
Other and Eliminations	**(77)**	(196)	(327)
Total continuing operations	**99**	(307)	(589)
Construction and Engineering: South Africa and rest of Africa	**(142)**	(160)	(401)
Aveng Construction: South Africa**	**(164)**	(162)	(400)
Aveng Capital Partners	**22**	2	(1)
Manufacturing and Processing	**57**	(17)	(129)
Aveng Steel	**50**	14	39
Aveng Manufacturing	**7**	(31)	(168)
Total discontinued operations	**(85)**	(177)	(530)
Net operating profit / (loss)	**14**	(484)	(1 119)
Loss attributable to equity-holders of the parent	**(168)**	(918)	(1 681)
Headline loss	**(205)**	(703)*	(1 545)

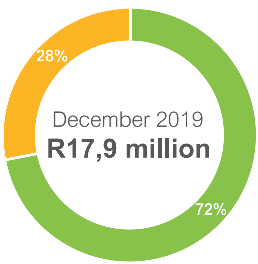
* *31 December 2018 restatement due to a loss on derecognition of components resulting from costs being disaggregated within the already recorded cost of sales to better reflect the asset component utilisation.*
** *Formerly Aveng Grinaker-LTA*



Revenue per operating group

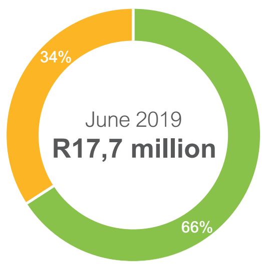
- McConnell Dowell
- Aveng Construction: South Africa**
- Moolmans
- Aveng Manufacturing
- Aveng Steel
- Other and Eliminations





Two-year order book per core operating group

- McConnell Dowell
- Moolmans



Interim condensed consolidated statement of financial position

as at 31 December 2019

	Notes	31 Dec 2019 (Reviewed) Rm	31 Dec 2018 (Reviewed) Rm	30 June 2019 (Audited) Rm
ASSETS				
Non-current assets				
Goodwill arising on consolidation		**100**	100	100
Intangible assets		**34**	44	39
Property, plant and equipment		**3 284**	2 852	2 814
Equity-accounted investments		**31**	54	45
Infrastructure investments		**142**	142	142
Derivative instruments		**–**	2	–
Deferred taxation		**617**	742	622
Long-term receivables		**52**	–	–
Amounts due from contract customers	9	**460**	472	462
		4 720	4 408	4 224
Current assets				
Inventories		**220**	190	214
Derivative instruments		**–**	9	–
Amounts due from contract customers	9	**1 769**	2 056	2 159
Trade and other receivables		**281**	264	194
Taxation receivable		**12**	25	43
Cash and bank balances		**1 396**	2 310	1 605
		3 678	4 854	4 215
Assets Held for Sale	10	**3 057**	3 993	3 843
TOTAL ASSETS		**11 455**	13 255	12 282

Interim condensed consolidated statement of financial position continued

as at 31 December 2019

	Notes	31 Dec 2019 (Reviewed) Rm	31 Dec 2018 (Reviewed) Rm	30 June 2019 (Audited) Rm
EQUITY AND LIABILITIES				
Equity				
Stated capital		**3 874**	3 874	3 874
Other reserves		**700**	908	781
Accumulated losses		**(2 192)**	(1 445)	(2 208)
Equity attributable to equity-holders of parent		**2 382**	3 337	2 447
Non-controlling interest		**4**	9	7
TOTAL EQUITY		**2 386**	3 346	2 454
Liabilities				
Non-current liabilities				
Deferred taxation		**85**	111	86
Borrowings and other liabilities	11	**1 408**	1 743	1 450
Payables other than contract-related		**115**	109	115
Employee-related payables		**248**	260	245
		1 856	2 223	1 896
Current liabilities				
Amounts due to contract customers	9	**684**	874	813
Borrowings and other liabilities	11	**1 025**	602	695
Payables other than contract-related		**21**	21	21
Employee-related payables		**217**	224	283
Derivative instruments		**1**	–	1
Trade and other payables		**2 317**	2 511	2 683
		4 265	4 232	4 496
Liabilities Held for Sale	10	**2 948**	3 454	3 436
TOTAL LIABILITIES		**9 069**	9 909	9 828
TOTAL EQUITY AND LIABILITIES		**11 455**	13 255	12 282

Interim condensed consolidated statement of comprehensive earnings

for the six months ended 31 December 2019

	Notes	Six months ended 31 Dec 2019 (Reviewed) Rm	Six months ended 31 Dec 2018 (Reviewed) Rm	Year ended 30 June 2019 (Audited) Rm
Revenue		**11 185**	13 367	25 676
Cost of sales		**(10 415)**	(12 770)	(24 628)
Gross earnings		**770**	597	1 048
Other earnings		**131**	58	110
Operating expenses		**(886)**	(1 125)	(2 247)
Loss from equity-accounted investments		**(1)**	(14)	(30)
Operating earnings / (loss)		**14**	(484)	(1 119)
Impairment loss on goodwill, intangible assets and property, plant and equipment	8	**–**	(163)	(241)
Impairment on equity-accounted investments	8	**(11)**	–	–
Gain on redemption of convertible bonds		**–**	102	102
Gain on disposal of assets Held for Sale		**54**	–	203
Gain on disposal of subsidiaries	13	**10**	–	41
Gain on disposal of property, plant and equipment		**28**	15	36
Fair value adjustment on properties and disposal groups classified as Held for Sale	10	**–**	–	(51)
Earnings / (loss) before financing transactions		**95**	(530)	(1 029)
Interest earned on bank balances		**85**	89	181
Interest on convertible bond		**–**	(63)	(63)
Other finance expenses		**(302)**	(281)	(524)
Loss before taxation		**(122)**	(785)	(1 435)
Taxation	14	**(48)**	(135)	(245)
Loss for the period		**(170)**	(920)	(1 680)
Loss from continuing operations		**(31)**	(681)	(927)
Loss from discontinued operations	5	**(139)**	(239)	(753)

Interim condensed consolidated statement of comprehensive earnings continued

for the six months ended 31 December 2019

	Six months ended 31 Dec 2019 (Reviewed) Rm	Six months ended 31 Dec 2018 (Reviewed) Rm	Year ended 30 June 2019 (Audited) Rm
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	**(82)**	57	(73)
Convertible bond reserve movement	**–**	20	20
Other comprehensive (loss) / earnings for the period, net of taxation	**(82)**	77	(53)
Total comprehensive loss for the period	**(252)**	(843)	(1 733)
Total comprehensive loss for the period attributable to:			
Equity-holders of the parent	**(249)**	(841)	(1 731)
Non-controlling interest	**(3)**	(2)	(2)
	(252)	(843)	(1 733)
Loss for the period attributable to:			
Equity-holders of the parent	**(168)**	(918)	(1 681)
Non-controlling interest	**(2)**	(2)	1
	(170)	(920)	(1 680)
Other comprehensive (loss) / earnings for the period, net of taxation			
Equity-holders of the parent	**(81)**	75	(50)
Non-controlling interest	**(1)**	2	(3)
	(82)	77	(53)

	Six months ended 31 Dec 2019 (Reviewed) Rm	Six months ended 31 Dec 2018 (Reviewed) Rm	Year ended 30 June 2019 (Audited) Rm
Results per share (cents)			
From continuing and discontinued operations			
Loss – basic	**(0,9)**	(7,2)	(10,5)
Loss – diluted	**(0,9)**	(7,2)	(10,5)
From continuing operations			
Loss – basic	**(0,2)**	(5,4)	(5,8)
Loss – diluted	**(0,2)**	(5,4)	(5,8)
From discontinued operations			
Loss – basic	**(0,7)**	(1,9)	(4,7)
Loss – diluted	**(0,7)**	(1,9)	(4,7)
Number of shares (millions)*			
In issue	**19 394,5**	19 394,5	19 394,5
Weighted average	**19 394,5**	12 676,3	15 995,5
Diluted weighted average	**19 394,5**	12 676,3	15 995,5

The continuing and discontinued operations' earnings/(loss) before interest, depreciation and amortisation, being net operating earnings/(loss) before interest, tax, depreciation and amortisation is R468 million (June 2019: (R369) million; December 2018: (R109) 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.*

Interim condensed consolidated statement of changes in equity

for the six months ended 31 December 2019

	Stated capital** Rm	Foreign currency translation reserve Rm	Equity-settled share-based payment reserve Rm
Six months ended 31 December 2018 (Reviewed)			
Balance at 1 July 2018	2 009	811	39
Loss for the period	–	–	–
Other comprehensive earnings for the period (net of taxation)	–	57	–
Total comprehensive loss for the period	–	57	–
Equity-settled share-based payment release	–	–	1
Redemption of Convertible bond	–	–	–
Foreign currency translation reserve	–	–	–
Share issue – Rights to qualifying shareholders (4 July 2018)	461	–	–
Share issue – Early redemption convertible bond (25 September 2018)	1 404	–	–
Balance at 31 December 2018	**3 874**	**868**	**40**
Year ended 30 June 2019 (Audited)			
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 release	–	–	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 at 30 June 2019	**3 874**	**741**	**40**
Six months ended 31 December 2019 (Reviewed)			
Balance at 1 July 2019 as previously reported	**3 874**	**741**	**40**
Adoption of *IFRS 16* accounting standard*	**–**	**–**	**–**
Balance at 1 July 2019	**3 874**	**741**	**40**
Loss for the period	**–**	**–**	**–**
Other comprehensive loss for the period (net of taxation)	**–**	**(81)**	**–**
Total comprehensive loss for the period	**–**	**(81)**	**–**
Balance at 31 December 2019	**3 874**	**660**	**40**

** The adoption of IFRS 16 – Leases has reduced the accumulated losses opening balance by R184 million. Prior year balances have not been restated as detailed in note 2: Basis of preparation and changes to the group accounting policies.*

Convertible bond equity reserve Rm	Total other reserve Rm	Accumulated loss 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
–	–	(918)	(918)	(2)	(920)
20	77	–	77	–	77
20	77	(918)	(841)	(2)	(843)
–	1	–	1	–	1
(288)	(288)	288	–	–	–
–	–	–	–	2	2
–	–	–	461	–	461
–	–	–	1 404	–	1 404
–	**908**	**(1 445)**	**3 337**	**9**	**3 346**
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**
–	**–**	**(168)**	**(168)**	**(2)**	**(170)**
–	**(81)**	**–**	**(81)**	**(1)**	**(82)**
–	**(81)**	**(168)**	**(249)**	**(3)**	**(252)**
–	**700**	**(2 192)**	**2 382**	**4**	**2 386**

*** In the prior year, stated capital was disclosed as share capital and share premium. This has been aggregated into a single amount in the current year as it provides a more accurate reflection of the nature of this account. There was no impact on the interim condensed consolidated financial statements by combining these columns.*

Interim condensed consolidated statement of cash flows

for the six months ended 31 December 2019

	Notes	31 Dec 2019 (Reviewed) Rm	31 Dec 2018 (Reviewed) Rm	30 June 2019 (Audited) Rm
Operating activities				
Cash retained / (utilised) from operations		**72**	(519)	(1 002)
Non-cash and other movements	15	**(118)**	100	(8)
Cash utilised from operations after non-cash movements		**(46)**	(419)	(1 010)
Depreciation		**449**	298	742
Amortisation		**5**	10	8
Cash generated / (utilised) by operations		**408**	(111)	(260)
Changes in working capital:				
(Increase) / decrease in inventories		**(6)**	65	41
Decrease in amounts due from contract customers		**392**	514	420
Increase in trade and other receivables		**(87)**	(87)	(18)
Decrease in amounts due to contract customers		**(129)**	(266)	(327)
Decrease in trade and other payables		**(250)**	(408)	(274)
Decrease in derivative instruments		**–**	(8)	(4)
Decrease in payables other than contract-related		**–**	(16)	(21)
(Decrease) / increase in employee-related payables		**(60)**	(17)	24
Increase / (decrease) in working capital Held for Sale		**175**	66	(161)
Total changes in working capital		**35**	(157)	(320)
Cash generated / (utilised) by operating activities		**443**	(268)	(580)
Finance expenses paid		**(304)**	(276)	(513)
Finance earnings received		**85**	90	181
Taxation paid		**(20)**	(35)	(90)
Cash inflow / (outflow) from operating activities		**204**	(489)	(1 002)

	31 Dec 2019 (Reviewed) Rm	31 Dec 2018 (Reviewed) Rm	30 June 2019 (Audited) Rm
Investing activities			
Acquisition of property, plant and equipment – expansion	**(2)**	(55)	(47)
Acquisition of property, plant and equipment – replacement	**(371)**	(238)	(674)
Proceeds on disposal of property, plant and equipment	**37**	72	97
Proceeds on disposal of assets Held for Sale	**106**	–	449
Proceeds on disposal of subsidiaries	**116**	–	61
Acquisition of intangible assets – replacement	**–**	(9)	–
Investments in associate and joint ventures	**–**	–	2
Capital expenditure net of proceeds on disposal	**(114)**	(230)	(112)
Loans repaid by equity-accounted investments net of dividends received	**–**	6	6
Dividends received	**24**	3	3
Movement in property, plant and equipment, intangible assets and investments classified as Held for Sale	**60**	–	102
Cash outflow from investing activities	**(30)**	(221)	(1)
Operating free cash inflow / (outflow)	**174**	(710)	(1 003)
Financing activities with equity-holders			
Proceeds from shares issued	**–**	1 866	1 866
Financing activities with debt holders			
Repayment of external borrowings*	**(276)**	(876)	(1 149)
Proceeds from external borrowings*	**76**	1 967	1 935
Payment of capital component of lease liabilities	**(99)**	–	–
Movement in borrowings classified as Held for Sale	**(26)**	–	(8)
Early redemption of convertible bond	**–**	(2 031)	(2 031)
Increase in long-term loan receivable	**(52)**	–	–
Cash (outflow) / inflow from financing activities	**(377)**	926	613

** In the prior year, these line items were disclosed as a single line item. This has been disaggregated as it provides a more accurate reflection of the nature of the cash flow.*

Interim condensed consolidated statement of cash flows
continued

for the six months ended 31 December 2019

	31 Dec 2019 (Reviewed) Rm	31 Dec 2018 (Reviewed) Rm	30 June 2019 (Audited) Rm
Net (decrease) / increase in cash and bank balances before foreign exchange movements	**(203)**	216	(390)
Foreign exchange movements on cash and bank balances	**(6)**	18	(81)
Cash and bank balances at the beginning of the period	**1 605**	2 076	2 076
Total cash and bank balances at the end of the period	**1 396**	2 310	1 605
Borrowings and other liabilities excluding bank overdrafts	**2 433**	2 345	2 145
Net debt position	**(1 037)**	(35)	(540)

Notes to the interim condensed consolidated financial statements

for the six months ended 31 December 2019

1. CORPORATE INFORMATION

The reviewed interim condensed consolidated financial statements (interim results) of Aveng Limited (the Company) and its subsidiaries (the Group) for the six months ended 31 December 2019 were authorised for issue in accordance with a resolution of the directors on 21 February 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

The Aveng Board announced the appointment of Ms Bridgette Modise as an independent non-executive director to the Aveng Board with effect from 1 November 2019. In addition, Ms Modise has been appointed to the Audit and Risk Committee and the Social, Ethics and Transformation Committee.

Registered address change

Shareholders are advised that Aveng Limited relocated to new offices with effect from 9 December 2019, and the Company's new registered address is as follows:
Physical address: 3rd Floor, 10 The High Street, Melrose Arch, Johannesburg, 2076

All other details remain the same as follows:
Postal address: PO Box 6062, Rivonia, 2128
Telephone: 011 779 2800

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

Basis of preparation

The interim results have been prepared on a historical cost basis, except for certain financial instruments that are measured at fair value.

These interim results are presented in South Africa Rand (ZAR) and all values are rounded to the nearest million (Rm) except where otherwise indicated. The interim results are prepared in accordance with *IAS 34 Interim Financial Statements (IAS 34)* and the Listings Requirements of the Johannesburg Stock Exchange. The accounting policies adopted are consistent with those of the Group's audited financial statements as at 30 June 2019, except for the new accounting standards and interpretations effective as of 1 January 2019.

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

The interim results for the six-month period ended 31 December 2019, set out on pages 3 to 70, have been reviewed by the Company's external auditors Ernst & Young Incorporated, in accordance with International Standard on Review Engagements *ISRE 2410 Review of Interim Financial Information Performed by the Independent Auditors of the Entity (ISRE 2410)*. The unmodified review opinion is available on request from the Company Secretary at the Company's registered office.

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2019

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

Changes to the Group accounting policies

The Group adopted *IFRS 16 Leases (IFRS 16)* (see note *2.1: IFRS 16 Leases*) and *IFRIC 23 Uncertainty over Income Tax Treatments (IFRIC 23)* (see note *2.2: IFRIC 23 Uncertainty over Income Tax Treatments*) with effect from 1 July 2019. As required by *IAS 34*, the nature and effect of these changes are disclosed below.

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.

2.1 *IFRS 16 Leases*

The Group has adopted *IFRS 16 Leases* using the modified retrospective approach, with the effect of initially applying the standard recognised at the transition date (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 details and quantitative impact of the changes in the accounting policy are disclosed in *note 2.3: Impact of adopting the new standards on the statement of Financial Position*.

IFRS 16 establishes a comprehensive framework for determining the recognition, measurement and disclosure 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 previously been classified as 'operating leases' under the principles of *IAS 17* as well as those contracts which may meet the definition of leases under I*FRS 16*, not previously classified as 'operating leases' under *IAS 17*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's weighted average incremental borrowing rate as of 1 July 2019. In determining the discount rate and lease term, the Group has elected to apply the practical expedients in *IFRS 16.C10(a)* and *C10(e)* on a lease-by-lease basis. The lessee's weighted average incremental borrowing rate applied to the lease liabilities on 1 July 2019 was between 6,0% and 10,50%, based on the portfolio in which the lease was included.

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

2.1 *IFRS 16 Leases* continued

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 liability 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.*

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 this 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.

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

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2019

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

2.1 *IFRS 16 Leases* continued

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 readily determined, the Group's weighted average incremental borrowing rate 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 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-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.

2.2 *IFRIC 23 Uncertainty over Income Tax Treatments*

The Group has adopted *IFRIC 23 Uncertainty over Income Tax Treatments* 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 (tax 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 interim condensed consolidated financial statements from the change in the accounting standard.

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

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 liabilities impact		1 299	

* *Right-of-use assets amounting to R926 million in the Construction and Engineering: South African and the 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 R70 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 Leases. *As the Group adopted IFRS 16 using the modified retrospective approach, this straight-lining of operating lease expenses liability is reversed at the transition date.*

**** *The net effect on 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 the 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 Leases.

Weighted average incremental borrowing rate

The Group applies a weighted average incremental borrowing rate in determining the present value of the lease liability at transition date. A portfolio approach allows the Group to apply a single discount rate for a portfolio of leases with similar characteristics. As such, the Group has determined a range of weighted average incremental borrowing rates of between 6,0% and 10,50% depending on the portfolio of leases at transition.

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2019

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 continued

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 liability. At inception, the lease liability comprised a current portion of R241 million, and a non-current portion of R316 million.

Discontinued operations

The adoption of *IFRS 16* has also resulted in the recognition of right-of-use assets amounting to R926 million included in the *Construction and Engineering: South Africa and the rest of Africa disposal group* and *Manufacturing and Processing disposal 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 liability. At inception, the lease liability comprised a current portion of R86 million, and non-current portion of R840 million.

Short-term leases and leases of low-value assets

Whilst 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 16.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. 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

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	30	(30)
Depreciation expense	(110)	–
Interest expense	–	(21)
Payments	–	120
As at 31 December 2019	**477**	**(488)**

The right-of-use asset balance at 31 December 2019 is made up of the following classes:

	Right-of-use assets Rm
Land and buildings	316
Plant, equipment and vehicles	161
As at 31 December 2019	**477**

Short-term leases and leases of low-value assets

The Group recognised rent expense from short-term leases of R123 million, leases of low-value assets of less than R1 million and no variable lease payments for the six months ended 31 December 2019.

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the interim results 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.

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 interim results. 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 interim results 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 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 liabilities relate to income taxation in the same jurisdiction, and the law allows net settlement, they have been offset in the statement of financial position.

Refer to *note 14: Taxation* for further detail.

3.2 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 and 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, nor significant future potential investments that will enhance the asset's performance of the CGU.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES continued

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

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.

3.3 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 the industry.

3.4 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 and 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 that the client will pay for contract variations; and
- estimation of project production rates and programme through to completion.

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

Given the complexity of many of the contracts undertaken by the Group, the knowledge and experience of the Group's project managers, engineers and executive management is used in assessing the status of negotiations with the customer, the reliability with which the estimated recoverable amounts can be measured, the financial risks pertained to individual projects, and the associated judgements and estimates employed. Cost and revenue estimates are reviewed and updated monthly or 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.

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES continued

3.5 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-free 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 lease 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.

3.6 Uncertainty over income tax treatments

In determining the taxable profit (tax 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 reassesses the tax treatment if facts and circumstances change.

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 interim financial statements, in determining the appropriate basis of preparation of the interim financial statements, the Board is required to consider whether the Group can continue in operational existence for the foreseeable future.

Management has prepared a budget and business plan for the 2020 financial year and the following two years, as well as cash flow forecasts covering a minimum of 18 months from the date of these interim condensed consolidated financial statements. These forecasts have been prepared, discussed and reviewed by management to ensure that they have been accurately compiled using appropriate assumptions. The budgets, plans and forecasts have, together with the assumptions used, been interrogated and approved by the Board.

These forecasts and plans, being implemented by management, indicate that the Group will have sufficient cash resources for the foreseeable future. In approving the operational liquidity forecasts, the Board has considered the following information up to the date of approval of these interim condensed consolidated financial statements:

Achieved during the interim period

- Renegotiated the debt repayment profile and terms for the Term Loan and revolving credit facilities;
- Arranged an additional short-term working capital facility with the South African Banking Group to address a seasonal low point in the Group's cash flow that was exacerbated by specific, but unanticipated market events with the latter part of the 2019 calendar year and timing delays in non-core asset sales;
- Full settlement of the Super Senior Liquidity Facility of R100 million and a R50 million repayment of the Term Loan; and
- Continued update and review of cash flow forecasts to allow for efficient planning and cash management.

Execution of plans

- Progress on the non-core asset disposal plan, including:
  - The receipt of disposal proceeds of R222 million, including, Aveng DFC of R125 million, Aveng Grinaker-LTA Mechanical and Electrical for R72 million and a R25 million initial payment for Aveng Grinaker-LTA Rand Roads;
  - Conclusion of the Aveng Grinaker-LTA Building and Civil Engineering deal for R70 million on a deferred payment plan;
  - Sale of a particular category of steel inventory at Aveng Trident Steel's Roodekop plant for R114 million, which allowed the Group to monetise a significant part of its inventory and reduce working capital;
  - Termination of the Aveng Grinaker-LTA Ground Engineering (GEL) and Aveng Duraset deals due to conditions precedent not being met; and
  - Other disposals are at varying stages of execution.
- Continued improvement in the operating performance and therefore underlying value and sustainable performance of the core businesses

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2019

4. GOING CONCERN AND LIQUIDITY continued

- Updated budget and business plans for the period up to 30 June 2021 for the Group, incorporating the benefits already realised and expected from actions taken, as well as future benefits from improved liquidity to be achieved once non-core businesses have been disposed of;
- 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 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 interim period, the Group reported a loss after tax of R170 million. As a result of these losses and continued difficult trading conditions in the domestic market, the Group's available cash resources were negatively impacted. The Group continues to focus on improving operational performance, reducing overheads and improving working capital efficiencies. To this end, a number of Group initiatives have been concluded, implemented or are in progress. Management continues to focus on progressive improvement in the quality of the Group's balance sheet to achieve a sustainable long-term capital structure.

The Group has cash (net of bank overdraft facilities) of R1,4 billion (30 June 2019: R1,6 billion) at 31 December 2019. Included in this, the Group has cash held by joint operations, restricted from immediate use of R313 million (30 June 2019: R624 million). Unutilised facilities amounted to R274 million (30 June 2019: R302 million).

The directors have considered all of the above, 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 interim condensed consolidated financial statements, and that sufficient liquidity will be available to support the ongoing operations of the Group, and that the realisation of assets and 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

During the previous financial years, 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 Moolmans forming the core business 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 31 December 2019, management remained committed to a robust plan to exit and dispose of the identified non-core operating groups.

The extension of the classification of the remaining assets within non-core operating segments as Held for Sale beyond 12 months is supported by the commitment by the Board to actively sell the assets in line with the strategic review. As at 31 December 2019, the Group did not have reasonable binding offers to purchase the remaining assets. The delay in the finalisation of the sales were due to events and circumstances beyond the control of management. In response, management continues to actively market and are in negotiations with interested buyers for the remaining assets at prices that are reasonable based on valuations performed.

Aveng Construction: South Africa (formerly Aveng Grinaker-LTA), forming part of the *Construction and Engineering: South Africa and rest of Africa* segment and Aveng Manufacturing and Aveng Trident Steel, both forming part of the *Manufacturing and Processing* segment, have met the requirements in terms of *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* 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 the underlying assets at 30 June 2018, and impairment was allocated to the identified cash-generating units of the operating groups (refer to *note 8: Impairment Loss*).

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 2019. The subsequent fair value measurement is detailed on the following page.

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2019

5. DISCONTINUED OPERATIONS continued

The loss from discontinued operations is analysed as follows:

	31 Dec 2019 (Reviewed) Rm	31 Dec 2018 (Reviewed) Rm	30 June 2019 (Audited) Rm
Revenue	**4 299**	6 583	12 128
Cost of sales	**(4 238)**	(6 366)	(11 864)
Gross earnings	**61**	217	264
Other earnings	**122**	60	118
Operating expenses	**(267)**	(458)	(916)
(Loss) / earnings from equity-accounted investments	**(1)**	4	4
Operating loss	**(85)**	(177)	(530)
Impairment loss on goodwill, intangible assets and property, plant and equipment	**–**	–	(78)
Gain on disposal of property, plant and equipment	**2**	15	36
Fair value adjustments on properties and disposal groups classified as Held for Sale	**–**	–	(51)
Loss before financing transactions	**(83)**	(162)	(623)
Net finance expenses	**(59)**	(42)	(34)
Loss before taxation	**(142)**	(204)	(657)
Taxation	**3**	(35)	(96)
Loss for the period	**(139)**	(239)	(753)
Attributable to:			
Equity-holders of the parent	**(139)**	(239)	(753)
Items by nature			
Capital expenditure	**10**	94	113
Loss before interest, taxation, depreciation and amortisation (EBITDA)	**(85)**	(177)	(530)
Results per share (cents)			
Loss – basic	**(0,7)**	(1,9)	(4,7)
Loss – diluted	**(0,7)**	(1,9)	(4,7)
Cash outflow from operating activities	**(40)**	(278)	(843)
Cash inflow from investing activities	**84**	(50)	102
Cash outflow from financing activities	**(26)**	(4)	(8)

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.

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2019

6. SEGMENTAL REPORT continued

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, and the balance of 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 (ACP). Aveng Construction: South Africa is divided into the following business units: Aveng Grinaker-LTA Building and Coastal, Aveng Grinaker-LTA Civil Engineering (including Rand Roads and GEL) and Aveng Grinaker-LTA Mechanical & Electrical.

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 business units were sold: Aveng Grinaker-LTA Building and Coastal, Aveng Grinaker-LTA Civil Engineering, Grinaker-LTA Rand Roads and Aveng Grinaker-LTA Mechanical & Electrical.

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 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.

Aveng Trident Steel is the only business unit in Aveng Steel.

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2019

6. SEGMENTAL REPORT continued

Segment report December 2019 (Reviewed)	CONTINUING OPERATIONS			
	Construction and Engineering: Australasia and Asia Rm	Mining Rm	Other and Eliminations Rm	Total Rm
Assets				
Goodwill arising on consolidation	100	–	–	100
Intangible assets	–	18	16	34
Property, plant and equipment	756	2 439	89	3 284
Equity-accounted investments	2	3	–	5
Infrastructure investments	–	–	142	142
Deferred taxation	627	–	(10)	617
Long-term receivables	–	–	52	52
Amounts due from contract customers	1 878	408	(57)	2 229
Inventories	26	194	–	220
Trade and other receivables	119	59	103	281
Taxation receivable	37	(13)	(7)	17
Cash and bank balances	1 102	159	(291)	970
Assets Held for Sale	–	–	–	–
Total assets	4 647	3 267	37	7 951
Liabilities				
Deferred taxation	87	264	(285)	66
Borrowings and other liabilities	438	307	1 688	2 433
Payables other than contract related	–	–	136	136
Employee-related payables	295	91	79	465
Trade and other payables	1 498	541	246	2 285
Derivative instruments	–	1	–	1
Amounts due to contract customers	552	132	–	684
Liabilities Held for Sale	–	–	–	–
Total liabilities	2 870	1 336	1 864	6 070

DISCONTINUED OPERATIONS		
Construction and Engineering: South Africa and rest of Africa Rm	Manufacturing and Processing Rm	Total Rm
–	–	–
–	–	–
–	–	–
26	–	26
–	–	–
–	–	–
–	–	–
–	–	–
–	–	–
–	–	–
(3)	(2)	(5)
119	307	426
352	2 705	3 057
494	3 010	3 504
–	19	19
–	–	–
–	–	–
–	–	–
25	7	32
–	–	–
–	–	–
463	2 485	2 948
488	2 511	2 999

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2019

6. SEGMENTAL REPORT continued

	CONTINUING OPERATIONS			
Segment report December 2018 (Reviewed)	Construction and Engineering: Australasia and Asia Rm	Mining Rm	Other and Eliminations Rm	Total Rm
Assets				
Goodwill arising on consolidation	100	–	–	100
Intangible assets	–	22	22	44
Property, plant and equipment	382	2 339	131	2 852
Equity-accounted investments	14	4	12	30
Infrastructure investments	–	–	142	142
Deferred taxation	647	72	(164)	555
Derivative instruments	–	2	–	2
Amounts due from contract customers	2 055	533	(60)	2 528
Inventories	5	185	–	190
Trade and other receivables	142	76	46	264
Taxation receivable	28	2	11	41
Cash and bank balances	1 238	115	(12)	1 341
Assets Held for Sale	–	–	224	224
Total assets	4 611	3 350	352	8 313
Liabilities				
Deferred taxation	97	223	(290)	30
Borrowings and other liabilities	191	184	1 970	2 345
Payables other than contract related	–	–	130	130
Employee-related payables	314	84	86	484
Trade and other payables	1 576	479	428	2 483
Amounts due to contract customers	739	135	–	874
Bank overdraft	–	–	–	–
Liabilities Held for Sale	–	–	–	–
Total liabilities	2 917	1 105	2 324	6 346

DISCONTINUED OPERATIONS		
Construction and Engineering: South Africa and rest of Africa Rm	Manufacturing and Processing Rm	Total Rm
–	–	–
–	–	–
–	–	–
24	–	24
–	–	–
137	50	187
–	9	9
–	–	–
–	–	–
–	–	–
(20)	4	(16)
329	640	969
782	2 987	3 769
1 252	3 690	4 942
15	66	81
–	–	–
–	–	–
–	–	–
24	4	28
–	–	–
–	–	–
1 029	2 425	3 454
1 068	2 495	3 563

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2019

6. SEGMENTAL REPORT continued

	CONTINUING OPERATIONS			
Segment report June 2019 (Audited)	Construction and Engineering: Australasia and Asia Rm	Mining Rm	Other and Eliminations Rm	Total Rm
Assets				
Goodwill arising on consolidation	100	–	–	100
Intangible assets	–	20	19	39
Property, plant and equipment	510	2 250	54	2 814
Equity-accounted investments	2	3	12	17
Infrastructure investments	–	–	142	142
Deferred taxation	618	–	4	622
Derivative instruments	–	–	–	–
Amounts due from contract customers	2 213	614	(206)	2 621
Inventories	40	174	–	214
Trade and other receivables	117	50	27	194
Taxation receivable	33	(15)	14	32
Cash and bank balances	1 024	72	(121)	975
Assets Held for Sale	–	–	–	–
Total assets	4 657	3 168	(55)	7 770
Liabilities				
Deferred taxation	73	236	(300)	9
Borrowings and other liabilities	178	178	1 789	2 145
Payables other than contract related	–	–	136	136
Employee-related payables	309	141	78	528
Trade and other payables	1 657	529	469	2 655
Derivative instruments	–	1	–	1
Amounts due to contract customers	645	169	(1)	813
Bank overdraft	–	–	–	–
Liabilities Held for Sale	–	–	–	–
Total liabilities	2 862	1 254	2 171	6 287

DISCONTINUED OPERATIONS		
Construction and Engineering: South Africa and rest of Africa Rm	Manufacturing and Processing Rm	Total Rm
–	–	–
–	–	–
–	–	–
–	–	–
28		28
–	–	–
–	–	–
–	–	–
–	–	–
–	–	–
17	(6)	11
259	371	630
921	2 922	3 843
1 225	3 287	4 512
36	41	77
–	–	–
–	–	–
–	–	–
28	–	28
–	–	–
–	–	–
–	–	–
1 064	2 372	3 436
1 128	2 413	3 541

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for the six months ended 31 December 2019

6. SEGMENTAL REPORT continued

Six months ended December 2019 (Reviewed)	CONTINUING OPERATIONS			
	Construction and Engineering: Australasia and Asia Rm	Mining Rm	Other and Eliminations Rm	Total Rm
Revenue	4 636	2 287	(37)	6 886
Construction contract revenue	4 636	2 285	(17)	6 904
Sale of goods	–	1	(21)	(20)
Other revenue	–	1	1	2
Transport revenue	–	–	–	–
Cost of sales	(4 162)	(2 085)	70	(6 177)
Gross earnings / (loss)	474	202	33	709
Other earnings / (loss)	(1)	(7)	17	9
Operating expenses	(414)	(78)	(127)	(619)
(Loss) / earnings from equity-accounted investments	–	–	–	–
Net operating earnings / (loss)	59	117	(77)	99
Impairment loss on equity-accounted investments	–	–	(11)	(11)
Gain on disposal of assets Held for Sale	–	–	54	54
Gain on disposal of subsidiary	–	–	10	10
Gain on sale of property, plant and equipment	–	–	26	26
Earnings / (loss) before financing	59	117	2	178
Net finance income / (expenses)	(20)	(18)	(120)	(158)
Earnings / (loss) before taxation	39	99	(118)	20
Taxation	(17)	(35)	1	(51)
Earnings / (loss) for the period	22	64	(117)	(31)
Capital expenditure	42	330	1	373
Depreciation	(117)	(329)	(3)	(449)
Amortisation	–	(2)	(3)	(5)
Earnings / (loss) before interest, taxation, depreciation and amortisation (EBITDA)	176	448	(71)	553

DISCONTINUED OPERATIONS		
Construction and Engineering: South Africa and rest of Africa Rm	Manufacturing and Processing Rm	Total Rm
1 151	3 148	4 299
1 151	–	1 151
–	3 103	3 103
–	7	7
–	38	38
(1 275)	(2 963)	(4 238)
(124)	185	61
55	67	122
(72)	(195)	(267)
(1)	–	(1)
(142)	57	(85)
–	–	–
–	–	–
–	–	–
1	1	2
(141)	58	(83)
3	(62)	(59)
(138)	(4)	(142)
(12)	15	3
(150)	11	(139)
–	10	10
–	–	–
–	–	–
(142)	57	(85)

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2019

6. SEGMENTAL REPORT continued

	CONTINUING OPERATIONS			
Six months ended December 2018 (Reviewed)	Construction and Engineering: Australasia and Asia Rm	Mining Rm	Other and Eliminations Rm	Total Rm
Revenue	4 818	2 035	(69)	6 784
Construction contract revenue	4 818	2 021	(41)	6 798
Sale of goods	–	6	(27)	(21)
Other revenue	–	8	(1)	7
Transport revenue	–	–	–	–
Cost of sales	(4 330)	(2 105)	31	(6 404)
Gross earnings / (loss)	488	(70)	(38)	380
Other earnings / (loss)	3	(4)	(1)	(2)
Operating expenses	(418)	(92)	(157)	(667)
(Loss) / earnings from equity-accounted investments	(18)	–	–	(18)
Net operating earnings / (loss)	55	(166)	(196)	(307)
Impairment loss on derecognition of property, plant and equipment	–	(163)	–	(163)
Gain on redemption of convertible bond	–	–	102	102
Gain on sale of property, plant and equipment	–	–	–	–
Earnings / (loss) before financing	55	(329)	(94)	(368)
Net finance income / (expenses)	(10)	(18)	(185)	(213)
Earnings / (loss) before taxation	45	(347)	(279)	(581)
Taxation	(12)	96	(184)	(100)
Earnings / (loss) for the period	33	(251)	(463)	(681)
Capital expenditure	36	171	1	208
Depreciation	(58)	(239)	(1)	(298)
Amortisation	–	(2)	(8)	(10)
Earnings / (loss) before interest, taxation, depreciation and amortisation (EBITDA)	113	75	(187)	1

	DISCONTINUED OPERATIONS		
	Construction and Engineering: South Africa and rest of Africa Rm	Manufacturing and Processing Rm	Total Rm
	2 705	3 878	6 583
	2 702	84	2 786
	–	3 753	3 753
	3	(3)	–
	–	44	44
	(2 708)	(3 658)	(6 366)
	(3)	220	217
	9	51	60
	(170)	(288)	(458)
	4	–	4
	(160)	(17)	(177)
	–	–	–
	–	–	–
	10	5	15
	(150)	(12)	(162)
	(16)	(26)	(42)
	(166)	(38)	(204)
	(28)	(7)	(35)
	(194)	(45)	(239)
	27	67	94
	–	–	–
	–	–	–
	(160)	(17)	(177)

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2019

6. SEGMENTAL REPORT continued

	CONTINUING OPERATIONS			
Year ended June 2019 (Reviewed)	Construction and Engineering: Australasia and Asia Rm	Mining Rm	Other and Eliminations Rm	Total Rm
Revenue	9 527	4 143	(122)	13 548
Construction contract revenue	9 527	4 120	(71)	13 576
Sale of goods	–	11	(52)	(41)
Other revenue	–	12	1	13
Transport revenue	–	–	–	–
Cost of sales	(8 537)	(4 325)	98	(12 764)
Gross earnings / (loss)	990	(182)	(24)	784
Other earnings / (loss)	3	(8)	(3)	(8)
Operating expenses	(846)	(181)	(304)	(1 331)
(Loss) / earnings from equity-accounted investments	(37)	(1)	4	(34)
Net operating earnings / (loss)	110	(372)	(327)	(589)
Impairment loss on goodwill, intangible assets and property, plant and equipment	–	(163)	–	(163)
Gain on redemption of convertible bond	–	–	102	102
Gain on disposal of assets Held for Sale	–	–	203	203
Gain on disposal of subsidiary	–	–	41	41
Gain on sale of property, plant and equipment	–	–	–	–
Fair value adjustments on properties and disposal groups classified as Held for Sale	–	–	–	–
Earnings / (loss) before financing	110	(535)	19	(406)
Net finance income / (expenses)	(15)	(12)	(345)	(372)
Earnings / (loss) before taxation	95	(547)	(326)	(778)
Taxation	(16)	(40)	(93)	(149)
Earnings / (loss) for the period	79	(587)	(419)	(927)
Capital expenditure	137	584	–	721
Depreciation	(127)	(612)	(3)	(742)
Amortisation	–	(4)	(4)	(8)
Earnings / (loss) before interest, taxation, depreciation and amortisation (EBITDA)	237	244	(320)	161

DISCONTINUED OPERATIONS Construction and Engineering: South Africa and rest of Africa Rm	Manufacturing and Processing Rm	Total Rm
4 617	7 511	12 128
4 614	153	4 767
–	7 282	7 282
3	–	3
–	76	76
(4 704)	(7 160)	(11 864)
(87)	351	264
12	106	118
(330)	(586)	(916)
4	–	4
(401)	(129)	(530)
(6)	(72)	(78)
–	–	–
–	–	–
–	–	–
21	15	36
–	(51)	(51)
(386)	(237)	(623)
13	(47)	(34)
(373)	(284)	(657)
(94)	(2)	(96)
(467)	(286)	(753)
31	82	113
–	–	–
–	–	–
(401)	(129)	(530)

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2019

6. SEGMENTAL REPORT continued

The Group operates in the following principal geographical areas:

	Six months ended Dec 2019 (Reviewed) Rm	Six months ended Dec 2018 (Reviewed) Rm	Year ended June 2019 (Audited) Rm
Revenue			
South Africa	**6 170**	7 955	15 033
Rest of Africa including Mauritius	**318**	520	944
Australia	**2 476**	2 723	5 181
New Zealand	**1 339**	967	2 116
Southeast Asia	**828**	1 130	2 105
Other regions	**54**	72	297
	11 185	13 367	25 676
Segment assets			
South Africa	**6 519**	8 758	5 019
Rest of Africa including Mauritius	**240**	694	2 540
Australia	**2 753**	3 613	1 499
New Zealand	**886**	–	1 031
Southeast Asia	**1 008**	–	2 128
Other regions	**49**	190	65
	11 455	13 255	12 282

7. HEADLINE LOSS

	December 2019 (Reviewed)		December 2018 (Restated)* (Reviewed)		30 June 2019 (Audited)	
	Gross of taxation Rm	Net of taxation Rm	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		**(168)**		(918)		(1 681)
Impairment of property, plant and equipment	**–**	**–**	163	163	163	163
Impairment of property, plant and equipment – Held for Sale	**–**	**–**	–	–	44	44
Gain on disposal of assets Held for Sale	**(54)**	**(54)**	–	–	(203)	(203)
Gain on disposal of subsidiaries	**(10)**	**(10)**	–	–	(41)	(41)
Impairment of intangible assets	**–**	**–**	–	–	34	34
Impairment loss on equity–accounted investments	**11**	**11**	–	–	–	–
Loss on derecognition of components*	**44**	**44**	67	67	124	124
Gain on sale of property, plant and equipment	**(28)**	**(28)**	(15)	(15)	(36)	(36)
Fair value adjustment on properties and disposal groups classified as Held for Sale	**–**	**–**	–	–	51	51
Headline loss		**(205)**		(703)		(1 545)
Diluted Headline loss		**(205)**		(703)		(1 545)
HEPS from continuing and discontinued operations						
Headline loss per share – basic (cents)		**(1,1)**		(5,5)		(9,7)
Headline loss per share – diluted (cents)		**(1,1)**		(5,5)		(9,7)
Issued shares (millions)		**19 394,5**		19 394,5		19 394,5
Weighted average shares (millions)		**19 394,5**		12 676,3		15 995,5
Diluted shares (millions)		**19 394,5**		12 676,3		15 995,5

** Following an extensive assessment of asset health within Moolmans carried out at the beginning of the prior year, certain costs are disaggregated within already recorded cost of sales to better reflect how the asset components are utilised. These costs have been reflected as loss on derecognition and added back in determining headline loss in the prior year, resulting in a restatement of headline loss.*

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8. IMPAIRMENT

The Group performed an annual impairment test as at 30 June 2019. 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).*

8.1 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 January 2018 that the following operating groups 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 operating groups 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 at 30 June 2019:

Construction and Engineering: South Africa and rest of Africa

- Aveng Grinaker-LTA Building and Civil Engineering;
- Aveng Grinaker-LTA Coastal;
- Aveng Grinaker-LTA GEL;
- Aveng Grinaker-LTA Mechanical and Electrical; and
- Aveng Grinaker-LTA Rand Roads.

Manufacturing and Processing

- Aveng Trident Steel;
- Aveng Automation and Control Solutions (ACS)
- Aveng Dynamic Fluid Control (DFC);
- Aveng Duraset; and
- Aveng Infraset.

As at 31 December 2019, the Group does not expect that the fair value less costs to dispose of CGUs differ materially from the value determined at 30 June 2019. Therefore, it has been determined that the fair value less costs to dispose exceeds the carrying amount, and no additional impairment is required for any of these CGUs.

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

Subsequent sale of CGUs Held for Sale

As at 31 December 2019, the Group had finalised the sale of the following CGUs:

Construction and Engineering: South Africa and rest of Africa

- Aveng Grinaker-LTA Building and Civil Engineering;
- Aveng Grinaker-LTA Coastal;
- Aveng Grinaker-LTA Mechanical and Electrical; and
- Aveng Grinaker-LTA Rand Roads.

Manufacturing and Processing

- Aveng Dynamic Fluid Control (DFC).

As at 30 June 2019, the Group had entered into a binding sales agreement for sale of Aveng Infraset. Despite the sale being at an advanced stage of completion, it had not been concluded by 31 December 2019.

The Group announced the disposal of Grinaker-LTA Ground Engineering (GEL) on 12 July 2019. The 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. GEL was identified as non-core, and continues to be deemed as such. The Group continues to pursue the sale of this business.

The Group announced that it had entered into a fully funded sale of business agreement for the sale of Aveng Duraset Alrode business (Duraset Alrode) as a going concern (Proposed Transaction). Subsequently, the South African Competition Commission prohibited the Proposed Transaction. As a result, the agreement was terminated. The Group continues to pursue the sale of this business.

Subsequent remeasurement of CGUs Held for Sale to fair value less costs of disposal

As at 31 December 2019, management subsequently calculated the recoverable amounts of the CGUs Held for Sale to be fair value less cost of disposal. As at 31 December 2019, the Group does not expect that the fair value less costs to dispose of the remaining CGUs Held for Sale differ materially from the value determined at 30 June 2019. Therefore, it has been determined that the fair value less cost to dispose exceeds the carrying amount, and no additional impairments is required for any of these CGUs.

Other individual assets in the scope of *IAS 36 Impairments*

An impairment assessment was performed on plant and equipment accounted for in Moolmans. Moolmans falls under the Mining segment. No additional impairment was required for this CGU at 31 December 2019 (31 December 2018: R163 million, 30 June 2019: R163 million).

An impairment of R11 million was required for the investment in Steeledale Proprietary Limited, an equity-accounted investment.

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for the six months ended 31 December 2019

9. AMOUNTS DUE FROM / (TO) CONTRACT CUSTOMERS

	December 2019 (Reviewed) Rm	December 2018 (Reviewed) Rm	June 2019 (Audited) Rm
Uncertified claims and variations (underclaims)*/**1	**1 173**	1 358	1 031
Contract contingencies*	**(199)**	(520)	(361)
Progress billings received (including overclaims)*2	**(654)**	(1 011)	(771)
Uncertified claims and variations less progress billings received	**320**	(173)	(101)
Contract receivables*3	**1 216**	1 931	1 916
Provision for contract receivables*	**–**	(3)	–
Provision for expected credit loss*	**(1)**	–	(1)
Retention receivables*4	**40**	54	36
	1 575	1 809	1 850
Amounts received in advance*5	**(30)**	(89)	(42)
	1 545	1 720	1 808
Classified as Held for Sale – transferred out (net)	**–**	(66)	–
Net amounts due from contract customers	**1 545**	1 654	1 808

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

	December 2019 (Reviewed) Rm	December 2018 (Reviewed) Rm	June 2019 (Audited) Rm
Disclosed on the statement of financial position as follows:			
Uncertified claims and variations*/**[1]	**1 173**	1 358	1 031
Contract contingencies*	**(199)**	(520)	(361)
Contract and retention receivables*	**1 256**	1 985	1 952
Provision for contract receivables	**–**	(3)	–
Provision for expected credit losses*	**(1)**	–	(1)
Classified as Held for Sale – transferred out *	**–**	(292)	–
Amounts due from contract customers	**2 229**	2 528	2 621
Progress billings received*	**(654)**	(1 011)	(771)
Amounts received in advance*	**(30)**	(89)	(42)
Classified as Held for Sale – transferred out	**–**	226	–
Amounts due to contract customers	**(684)**	(874)	(813)
Net amounts due from contract customers	**1 545**	1 654	1 808

* *Amounts due from / (to) contract customers previously classified under these categories have been classified as Held for Sale in terms of IFRS 5 in the prior year. As such, the balances for 2019, reflected above represent only the continuing operations. No additional amounts due from / (to) contract customers were transferred to / from the Held for Sale disposal groups in the current year. 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.*

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

[1] *Includes revenue not yet certified – recognised based on 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 customers before the related work is performed.*

The non-current uncertified claims and variation amounts, which are subject to protracted legal proceedings amounts to R460 million (December 2018: R472 million; June 2019: R462 million).

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10. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

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

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

These non-core segments are presented as separately identifiable disposal groups and are disclosed as discontinued operations in the Group's statement of comprehensive earnings.

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 cash-generating units (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 8: Impairments*). On initial recognition, the proceeds from the sale were expected to equal the net carrying amounts. As noted in *note 8: Impairments*, impairment was required for both segments at 30 June 2018. The carrying amounts of some of the assets in relation to the *Construction and Engineering: South Africa and the rest of Africa* and *Manufacturing and Processing* disposal groups, exceed their fair value less cost of disposal after being classified as Held for Sale.

Sales finalised in the current year

Manufacturing and Processing

In July 2019, the disposal of Aveng Dynamic Fluid Control (DFC) to Copaflo Proprietary Limited was announced. The sale was concluded in September 2019, whereby the CGU was sold for R125 million.

Construction and Engineering: South Africa and the rest of Africa

In August 2019, Aveng, 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 Grinaker-LTA Building and Civils 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, commencing on the twenty-fifth day of the sixth month following the closing date; and a further R50 million which will be settled no later than the second anniversary of the closing date.

In October 2019, the disposal of Aveng Grinaker-LTA Mechanical and Electrical Business to Laula Consortium Proprietary Limited was announced. The sale was concluded in December 2019 for a purchase price of R72 million which was received by Aveng in full.

Rand Roads was disposed of to Ultra Asphalt Proprietary Limited (Ultra) for R37.5 million with an initial payment of R25 million, and the balance 92 days after effective date.

10. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE continued

Subsequent measurement

The extension of the classification of the remaining assets within non-core operating segments as Held for Sale beyond 12 months is supported by the commitment by the Board to actively sell the assets in line with the strategic review. In the preceding 12 months, the Group did not receive reasonable offers to purchase all of the remaining assets, and the delay in the finalisation of sales were due to events and circumstances beyond the control of management. In response, management continues to actively market the remaining assets at prices that are reasonable based on valuations performed.

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 31 December 2019 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.

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. No adjustment to adjust the carrying amount was recognised on any assets Held for Sale.

No additional impairment adjustments were required at 31 December 2019.

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10. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE continued

	December 2019 (Reviewed) Rm	December 2018 (Reviewed) Rm	June 2019 (Audited) Rm
Assets Held for Sale	**3 057**	3 993	3 843
Liabilities Held for Sale	**(2 948)**	(3 454)	(3 436)
	109	539	407
Movement during the year			
Opening balance	**407**	693	693
Movements in:			
Non-current assets*	**869**	(95)	(20)
Current assets	**(852)**	(686)	(416)
Non-current liabilities**	**(749)**	17	19
Current liabilities***	**597**	610	558
Sale of assets Held for Sale	**(163)**	–	(224)
Transfer of assets classified as Held for Sale to property, plant and equipment	**–**	–	(152)
Adjustment to fair value less cost of disposal****	**–**	–	(51)
Net assets Held for Sale	**109**	539	407

* *Included in the movement of non-current assets is an increase of R926 million relating to right-of-use assets, which were included in the Held for Sale property, plant and equipment at 1 July 2019 as part of the adoption of IFRS 16.*

** *Included in the movement of non-current liabilities is an increase of R926 million relating to lease liabilities recognised in the Held for Sale borrowings and other liabilities amount at 1 July 2019 as part of the adoption of IFRS 16.*

*** *Included in the movement of current liabilities is a decrease of R70 million relating to the straight-lining of operating leases liabilities previously recognised under* IAS 17 Leases*. As the Group adopted IFRS 16 using the modified retrospective approach, the straight-lining of operating leases liabilities is reversed on transition.*

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

10. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE continued

31 December 2019	Construction and Engineering: South Africa and the rest of Africa-Disposal group Rm	Manufacturing and Processing Disposal group Rm	Total Rm
ASSETS			
Non-current assets			
Intangible assets	–	24	24
Property, plant and equipment	34	949	983
Equity-accounted investments*	32	–	32
Infrastructure investments	118	–	118
	184	973	1 157
Current assets			
Inventories	1	1 120	1 121
Derivative instruments	–	4	4
Amounts due from contract customers	116	3	119
Trade and other receivables	51	605	656
	168	1 732	1 900
TOTAL ASSETS	352	2 705	3 057
LIABILITIES			
Non-current liabilities			
Borrowings and other liabilities	–	786	786
Employee-related payables	2	3	5
	2	789	791
Current liabilities			
Amounts due to contract customers	46	7	53
Borrowings and other liabilities	–	69	69
Employee-related payables	25	30	55
Trade and other payables	390	850	1 240
Financial Liabilities	–	6	6
Provision for unallocated fair value adjustments	–	734	734
	461	1 696	2 157
TOTAL LIABILITIES	463	2 485	2 948
Net assets Held for Sale	(111)	220	109

** 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 the rest of Africa reporting segment disposal group as it forms part of Aveng Capital Partners investment portfolio.*

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2019

10. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE continued

As at 31 December 2018, the disposal groups and individual assets classified as Held for Sale were stated at fair value less costs to dispose and comprised the following:

31 December 2018	Construction and Engineering: South Africa and the rest of Africa – Disposal group Rm	Manufacturing and Processing – Disposal group Rm
ASSETS		
Non-current assets		
Intangible assets	–	51
Property, plant and equipment	287	110
Equity-accounted investments	32	–
Infrastructure investments	125	–
	444	161
Current assets		
Inventories	28	1 785
Amounts due from contract customers	264	28
Trade and other receivables	46	1 013
	338	2 826
TOTAL ASSETS	782	2 987
LIABILITIES		
Non-current liabilities		
Borrowings and other liabilities	–	9
Employee-related payables	35	4
	35	13
Current liabilities		
Amounts due to contract customers	219	7
Borrowings and other liabilities	–	9
Employee-related payables	84	41
Trade and other payables	691	1 621
Provision for unallocated fair value adjustments	–	734
	994	2 412
TOTAL LIABILITIES	1 029	2 425
Net assets Held for Sale	(247)	562

** 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 the rest of Africa reporting segment disposal group as it forms part of Aveng Capital Partners investment portfolio.*

Properties – Vanderbijlpark Rm	Properties – Jet Park Rm	Properties – Other Rm	Total Rm
–	–	–	51
43	128	53	621
–	–	–	32
–	–	–	125
43	128	53	829
–	–	–	1 813
–	–	–	292
–	–	–	1 059
–	–	–	3 164
43	128	53	3 993
	–	–	9
	–	–	39
	–	–	48
–	–	–	226
–	–	–	9
–	–	–	125
–	–	–	2 312
–	–	–	734
–	–	–	3 406
–	–	–	3 454
43	128	53	539

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2019

10. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE 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 the 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 the rest of Africa reporting segment disposal group as it forms part of Aveng Capital Partners investment portfolio.*

11. BORROWINGS AND OTHER LIABILITIES

	Notes	December 2019 (Reviewed) Rm	December 2018 (Reviewed) Rm	June 2019 (Audited) Rm
Borrowings and other liabilities comprises:				
Interest-bearing borrowings held at amortised cost	11.1	**1 945**	2 345	2 145
Lease liabilities	11.2	**488**	–	–
Total borrowings and other liabilities		**2 433**	2 345	2 145

11.1 Interest-bearing borrowings held at amortised cost

	December 2019 (Reviewed) Rm	December 2018 (Reviewed) Rm	June 2019 (Audited) Rm
Interest-bearing borrowings held at amortised cost comprise:			
Credit and term facilities	**1 758**	2 042	1 870
Asset-backed financing arrangements	**187**	303	275
Total borrowings as at year end	**1 945**	2 345	2 145
Payment profile			
– within one year	**748**	602	695
– between two and five years	**1 197**	1 743	1 450
	1 945	2 345	2 145
Interest rate structure			
Fixed and variable (interest rates)			
Fixed – long term	**356**	392	414
Fixed – short term	**127**	134	129
Variable – long term	**841**	1 351	1 036
Variable – short term	**621**	468	566
	1 945	2 345	2 145

Notes to the interim condensed consolidated financial statements continued
for the six months ended 31 December 2019

11. BORROWINGS AND OTHER LIABILITIES continued

11.1 Interest-bearing borrowings held at amortised cost continued

Description	Terms	Rate of interest	December 2019 (Reviewed) Rm	December 2018 (Reviewed) Rm	June 2019 (Audited) Rm
Credit and term facilities					
Revolving credit facility**	Repayable September 2021	1M JIBAR + 4,89%	**550**	550	550
Revolving credit facility**	Repayable September 2021	Fixed rate of 13,986%. From 1 October 2020 1M JIBAR plus 4,89%	**299**	253	281
Term facility**	Repayable June 2021	1M JIBAR + 5,02%	**808**	858	858
Working capital credit facility	Repaid monthly as on a revolving facility basis	2,9% plus 0,5% margin	**79**	49	49
Term loan facility denominated in ZAR**	Monthly instalments ending April 2021	Fixed interest rate of 10,58%	**24**	40	32
Super Senior Liquidity Facility #2**	Settled October 2019	1M JIBAR + 4,21%	**–**	200	100
Super Senior Liquidity Facility**	Settled February 2019	1M JIBAR + 4,07%	**–**	100	–

11. BORROWINGS AND OTHER LIABILITIES continued

11.1 Interest-bearing borrowings held at amortised cost continued

Description	Terms	Rate of interest	December 2019 (Reviewed) Rm	December 2018 (Reviewed) Rm	June 2019 (Audited) Rm
Asset-backed financing arrangements					
Facility of AUD12 million	Monthly instalments ending November 2020	Fixed interest rate of 4,60%	**45**	98	70
Facility of AUD6 million	Monthly instalments ending in October 2024	Fixed range of 2,99% to 7,60%	**23**	43	59
Facility of AUD3 million	Monthly instalments ending in July 2022	Fixed interest rate of 4,60%	**30**	–	–
Facilities denominated in ZAR	Monthly instalments settled in November 2019	South African prime less 1,70%	**–**	17	9
Facility denominated in ZAR	Monthly instalments ending in February 2022	Fixed interest rate of 8%	**3**	3	4
Hire purchase agreement denominated in ZAR	Monthly instalments settled in September 2019	Fixed interest rate of 10%	**–**	14	5
Hire purchase agreement denominated in ZAR	Monthly instalments ending April 2021	Fixed interest rate of 12,27%	**7**	10	10
Hire purchase agreement denominated in ZAR	Monthly instalments ending August 2022	South African prime	**12**	20	14

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2019

11. BORROWINGS AND OTHER LIABILITIES continued

11.1 Interest-bearing borrowings held at amortised cost continued

Description	Terms	Rate of interest	December 2019 (Reviewed) Rm	December 2018 (Reviewed) Rm	June 2019 (Audited) Rm
Asset-backed financing arrangements					
Hire purchase agreement denominated in ZAR	Monthly instalments ending August 2020	South African prime plus 3,00%	**11**	25	18
Hire purchase facility denominated in USD	Monthly instalments ending August 2021	Fixed interest rate of 6,68%	**54**	58	86
Hire purchase agreement denominated in ZAR	Settled September 2018	South African prime plus 0,50%	**–**	15	–
Interest-bearing borrowings			**1 945**	2 353	2 145
Interest outstanding on Interest-bearing borrowings*			**–**	10	–
Classified as Held for Sale – transferred out			**–**	(18)	–
Total interest-bearing borrowings			**1 945**	2 345	2 145

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

** *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.*

As included in *note 17: Events after the reporting period*, the Group arranged an additional short-term working capital facility of R200 million with the South African Banking Group to address a seasonal low point in the Group's cash flow.

11. BORROWINGS AND OTHER LIABILITIES continued

11.1 Interest-bearing borrowings held at amortised cost continued

Unutilised borrowing facilities

At 31 December 2019, the Group had available R274 million (30 June 2019: R302 million; and 31 December 2018: R519 million) of unutilised borrowing facilities.

Asset-backed financing arrangements

The *Mining* operating segment entered into various asset-based finance lease agreements to purchase operating equipment denominated both in USD and ZAR. These arrangements are secured by the assets for which the funding was provided and are repayable in monthly or quarterly instalments with the final repayment due in August 2022. The total amount outstanding on these facilities amounted to R111 million (December 2018: R127 million; June 2019: R178 million). Equipment with a net carrying amount of R313 million (December 2018: R213 million; June 2019: R321 million) has been pledged as security for the facility.

The *Mining and Manufacturing and Processing* operating segments entered into various vehicle lease arrangements.

The *Manufacturing and Processing* operating segment asset lease arrangements were early settled as part of the relevant disposals.

11.2 Lease liabilities

The table represents only the continuing operations lease liabilities, recognised for the first time under *IFRS 16 Leases*.

All asset based financing arrangements, previously recognised in *Borrowings and other liabilities* are included in *note 11.1: Interest-bearing borrowings held at amortised cost* for comparative purposes.

	December 2019 (Reviewed) Rm	December 2018 (Reviewed) Rm	June 2019 (Audited) Rm
Lease liabilities are payable as follows:			
Minimum lease payments due:			
– within one year	**224**	–	–
– in two to five years	**320**	–	–
– more than five years	**73**	–	–
Less: Future finance charges	**(129)**		
Present value of minimum lease payments	**488**	–	–
Current	**277**	–	–
Non-current	**211**	–	–

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2019

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:

	December 2019 (Reviewed)	December 2018 (Reviewed)	June 2019 (Audited)
South Africa and rest of Africa			
Guarantees and bonds (Rm)	**1 317**	1 942	1 491
Parent company guarantees (Rm)	**30**	512	30
	1 347	2 454	1 521
Australasia and Asia			
Guarantees and bonds (AUDm)	**275**	282	270
Parent company guarantees (AUDm)	**44**	337	44
	319	619	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. 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 not considered an operating segment nor a separate major line of business or geographical area.

31 December 2019 (Reviewed)	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 relating to this transaction were expensed.*

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2019

13. DISPOSAL OF SUBSIDIARIES continued

Construction and Engineering: South Africa and the rest of Africa

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 of these subsidiaries formed part of the *Construction and Engineering: South Africa and rest of Africa* – disposal group. The subsidiaries were not considered an operating segment nor a separate major line of business or geographical area.

31 December 2019 (Reviewed)	Grinaker-Proprietary Limited Rm	Grinaker-(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 relating to this transaction were expensed.*

13. DISPOSAL OF SUBSIDIARIES continued

Construction and Engineering: South Africa and the rest of Africa

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 the Rest of Africa* disposal group. The subsidiary was not considered an operating segment nor a separate major line of business or geographical area.

30 June 2019 (Audited)	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 obligations	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 relating to this transaction were expensed.*

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2019

14. TAXATION

	December 2019 (Reviewed) Rm	December 2018 (Reviewed) Rm	June 2019 (Audited) Rm
Major components of the taxation expense			
Current taxation	**52**	24	114
Deferred taxation	**(4)**	111	131
	48	135	245

South African income taxation is calculated at 28% (December 2018: 28%; June 2019: 28%) of the taxable income for the interim period ended 31 December 2019. Taxation in other jurisdictions is calculated at the prevailing rates in the relevant jurisdiction.

The Group effective tax rate for the interim period ended 31 December 2019 is negative 39,3% (December 2018: negative 17,1%; June 2019: negative 17,1%).

The main driver affecting the tax rate is the non-recognition of deferred tax assets.

Deferred taxation assets

The Group's results include a number of legal statutory entities within a number of taxation jurisdictions. The recoverability of the deferred taxation assets was assessed in respect of each individual legal entity.

Deferred taxation assets are recognised to the extent that the realisation of the related tax benefit through future taxable profits is probable.

Specific focus was placed on Aveng Africa Proprietary Limited. A re-assessment of the utilisation of tax losses was done as at 31 December 2019.

15. NON-CASH AND OTHER MOVEMENTS

	December 2019 (Reviewed) Rm	December 2018 (Reviewed) Rm	June 2019 (Audited) Rm
Impairment loss on goodwill, property, plant and equipment and intangible assets	**–**	163	241
Impairment loss on equity-accounted investments	**11**	2	–
Gain on redemption of convertible bond	**–**	(102)	(102)
Deferred tax effect on convertible bond	**–**	20	–
Gain on disposal of assets Held for Sale	**(54)**	–	(203)
Gain on disposal of subsidiaries	**(10)**	–	(41)
Gain on disposal of property, plant and equipment	**(28)**	(22)	(36)
Fair value adjustment on properties and disposal groups classified as Held for Sale	**–**	–	51
Unrealised foreign exchange losses on borrowings and other liabilities	**–**	–	1
Write-off of inventory	**–**	5	–
Movements in foreign currency translation	**(81)**	(8)	(44)
Movements in equity-settled share-based payment reserve	**–**	1	1
Derecognition of components included in property, plant and equipment	**44**	67	124
Other non-cash items	**–**	(26)	–
	(118)	100	(8)

16. FAIR VALUE OF ASSETS AND LIABILITIES

The Group measures the following financial instruments at fair value:

- Infrastructure investments; and
- Forward exchange contracts.

The infrastructure investments comprise the following:

- Firefly Investments 238 Proprietary Limited (Firefly);
- Imvelo Concessions Company Proprietary Limited (Imvelo); and
- Dimopoint Proprietary Limited (Dimopoint).

The methodology, valuation parameters and assumptions for infrastructure investments have remained unchanged since 30 June 2019. For more detail, refer to the Aveng Group audited consolidated annual financial statements 2019 available on the Group's website.

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2019

16. FAIR VALUE OF ASSETS AND LIABILITIES continued

Fair value hierarchy

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

	Carrying amounts Rm	Fair value Rm
31 December 2019 (Reviewed)		
Assets and liabilities recognised at fair value		
Assets		
Infrastructure investments	**142**	**142**
Infrastructure investments (Held for Sale)	**118**	**118**
Forward exchange contracts (FECs) (Held for Sale)	**4**	**4**
Liabilities		
Forward exchange contracts (FECs)	**1**	**1**
Forward exchange contracts (FECs) (Held for Sale)	**6**	**6**
31 December 2018 (Reviewed)		
Assets recognised at fair value		
Assets		
Infrastructure investments	142	142
Infrastructure investments (Held for Sale)	125	125
Forward exchange contracts (FECs)	11	11
30 June 2019 (Audited)		
Assets recognised at fair value		
Assets		
Infrastructure investments	142	142
Infrastructure investments (Held for Sale)	119	119
Liabilities		
Forward exchange contracts (FECs)	2	2

Valuation reference to observable prices Level 1 Rm	Valuation based on observable inputs Level 2 Rm	Valuation based on unobservable inputs Level 3 Rm
–	**–**	**142**
–	**–**	**118**
–	**4**	**–**
–	**1**	**–**
–	**6**	**–**
–	–	142
–	–	125
–	11	–
–	–	142
–	–	119
–	2	–

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2019

16. FAIR VALUE OF ASSETS AND LIABILITIES 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 %	Reasonable possible changes to significant unobservable inputs %	Reasonable effect recorded directly in profit or loss Increase Rm	Decrease Rm
Infrastructure investments				
Risk-adjusted discount rate:				
– Dimopoint Proprietary Limited	16,0	0,5	(9)	9
Classified as Held for Sale				
– Imvelo Concessions Company Proprietary Limited	17,0	0,5	(2)	2
– Firefly Investments 238 Proprietary Limited	14,1	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 Repudiation and termination of Leonardo contract

The Group announced on SENS on 9 January 2020 that it had received a notice purporting to terminate the contract for the construction of the Leonardo in Sandton (the Contract) from 75 on Maude Proprietary Limited (the Employer).

Aveng's position is that the grounds for termination relied on by the Employer are incorrect, inaccurate and ill-conceived, and are accordingly denied. Furthermore, Aveng is of the view that the Employer is itself in material breach of the Contract, which precludes the possibility of a valid termination. Therefore, the action taken by the Employer amounts to a clear repudiation of the Contract.

Aveng has accepted the repudiation and as a result has consequently terminated the Contract on the basis of this repudiation. Aveng has fully reserved its rights and intends to recover its damages resulting from the termination.

Aveng considers the building to be practically complete for the purposes of its intended use.

The Employer has made a call on the construction guarantee (the Bond), procured by Aveng as part of the Contract. The call was made on the basis of the Employer's termination of the Contract. The value of the Bond is R87,4 million. It has been settled with the Employer, by the Bond provider.

Aveng is accordingly considering its position and taking advice as to what remedies it will have recourse to, as it considers the call on the Bond to be incorrect for the reasons outlined above. Appropriate consideration has been given to potential outcomes and the dispute resolution mechanisms are already underway.

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 December 2019

17. EVENTS AFTER THE REPORTING PERIOD continued

17.2 *Liquidity, solvency, ongoing funding and the going concern assertion*

As included in *note 4: Going Concern* and liquidity, and further detailed below, in determining the appropriate basis of preparation of the interim financial statements, the Board is required to consider whether the Group can continue in operational existence for the foreseeable future. The directors have considered the agreements reached, the transactions executed, the actions taken by the Group, the financial plans and forecasts, including all available information, and are therefore of the opinion that going concern assumption is appropriate in the preparation of the interim financial statements. In forming the conclusion, the directors have considered, *inter alia,* the additional short-term working capital facility arranged with the South African Banking Group to address a seasonal low point in the Group's cash flow that was exacerbated by specific but unanticipated market events in the latter part of the 2019 calendar year and timing delays with non-core asset sales. Details thereof are set out in *note 11: Borrowings and other liabilities* to these interim financial statements.

Commentary

SALIENT FEATURES

- Group revenue of **R11,2 billion** as the Group proceeded with planned non-core asset disposals
- Net operating profit of **R14 million** driven by core business performance
  – Moolmans returned to **profitability** and cash positive
  – McConnell Dowell maintained **profitable trend**, cash positive and grew order book
- Core order book of **R17,9 billion**
  – **72%** International, **28%** South Africa
- **R222 million** non-core asset sales proceeds received
- **R200 million** debt repaid
- Sustained focus on **cost reduction**

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 HALF YEAR ENDED 31 DECEMBER 2019

POSITIONING FOR LONGER-TERM STRATEGIC GOALS

Aveng made significant progress in achieving the objectives of its strategic action plan.

The Group returned to operating profitability with both core businesses delivering operating profits and generating cash. Aveng's focus is on attaining consistent performance, sustainable long-term profitability and value creation for stakeholders from its core businesses. Non-core business contributed to operating performance.

Capital restructure

Over the last two years, Aveng restructured and stabilised its capital base through the early redemption of the R2 billion convertible bond, a R493 million rights offer, the restructuring of bank debt and the issuance of a new term and RCF note. R450 million of the debt has been repaid to date, R400 million of which was the Super Senior Liquidity Facility and R50 million towards the Term Loans. Management continues to review the capital structure.

Non-core asset disposals

The sale of non-core assets is a key contributor to the Group's objectives. The Group has announced disposals valued at more than R1 billion, with cash receipts of R750 million to date. The following disposals have been concluded:

– November 2018 – Jet Park properties for R215 million
– May 2019 – Aveng Rail to Mathupa Capital, a 100% black-owned investment company for R133 million

Commentary continue

- June 2019 – Aveng Water for R85 million to Infinity Partners a 100% black-owned company
- October 2019 – Dynamic Fluid Control (DFC) to 100% black-owned Copaflo Fluid Control, for R125 million
- November 2019 – Building & Civil Engineering to the 100% black-owned Laula Consortium for R70 million
- December 2019 – Mechanical & Electrical to the Laula Consortium for R72 million
- December 2019 – Rand Roads to Ultra Asphalt for R37,5 million
- Other properties and investments for R95 million

The Duraset Alrode disposal announced in July 2019 was prohibited by the Competition Commission and negotiations are underway with other potential buyers. The disposal of Infraset remains subject to the fulfilment of the conditions precedent and ongoing discussions with the buyer's consortium.

The disposals of Trident Steel and Automation and Control Systems (ACS) are progressing as planned and are expected to be concluded by June 2020.

Aveng has established a project management office (PMO) to manage and implement the significant task of closing out the non-core disposals and to ensure that the Group complies with all statutory, legal, technical, commercial and human resources obligations. The PMO ensures that the disposals are concluded in a professional and responsible manner and that the four remaining active construction projects and projects subject to defect liability periods are managed to completion.

Improving performance of core businesses

The Group's core businesses have both contributed to a significant improvement in the Group's performance. McConnell Dowell and Moolmans were both profitable and cash generative during the period under review. The current order book for 2020 secures more than 90% of budgeted revenue and a significant proportion of the 2021 budgeted revenue.

McConnell Dowell

McConnell Dowell remained profitable and cash positive in line with management expectations and improved its overall operational performance as it focused on working collaboratively with clients on selected specialised projects. Progressive improvement in project execution and the turnaround of some loss-making projects contributed to a further increase in the gross margin. Considerable effort to increase McConnell Dowell's order book yielded new orders to the value of AUD604 million during the period. This increased the two-year order book to AUD1,3 billion, which supports 92% of budgeted revenue for 2020.

A further AUD350 million of preferred status projects were converted into firm orders subsequent to 31 December 2019, bringing the total order book to AUD1,6 billion which supports 61% of the budgeted revenue for 2021. In addition McConnell Dowell has secured preferred status position on further projects amounting to AUD1,9 billion.

McConnell Dowell has largely completed its turnaround strategy which has seen the management team stabilise the business, strengthen its balance sheet and adopt market selection and bidding approaches and processes that position it for growth and sustainable long-term profitability. The business remains focused on opportunities in growing markets within the areas of specialisation in which it has a proven track record of success. Margin performance achieved to date validates this disciplined approach to tendering combined with consistency in execution.

McConnell Dowell is experiencing a growing trend of winning work from a low of AUD450 million in the 2018 financial year to AUD1,3 billion in 2019 and is currently on track to secure an improvement on the prior year performance. Ongoing conversion of a healthy pipeline of outstanding tender prospects into firm orders will contribute to positive cash generation and achieve the scale that the business requires for its longer-term growth objectives. An emphasis on securing repeat work with major clients in Australia as a result of sound performance on projects, such as the long-term Western Program Alliance and Swanson Dock in Melbourne is showing encouraging results.

McConnell Dowell continues to pursue the resolution of its historic Gold Coast, Wheatstone and Perth Airport claims.

Moolmans

Moolmans delivered a significant turnaround in its performance, reporting net operating earnings of R117 million compared to a net operating loss of R166 million in December 2018, as the turnaround strategy gained traction. The renegotiation of certain contracts, including Gamsberg and a further extension of the Nkomati contract to September 2020, coupled with improved project execution enabled Moolmans' return to profitability. This encouraging performance improvement underpins the prospect of Moolmans sustaining profitability for the full financial year. Moolmans' two-year order book of R5,1 billion secures 96% of revenue for 2020 and 53% of budgeted revenue for 2021.

The business will continue to focus on further improving operational performance and is examining several selected opportunities in its chosen markets, including the prospect of both additional extensions and further growth to existing contracts to achieve its longer-term budgeted targets for 2021 and 2022.

As strategically anticipated, open cut mining volumes are expected to significantly exceed those of underground mining within the targeted markets in the longer term. Moolmans' strong reputation as an open cut mining contractor will support the Group's ability to secure new opportunities.

MARKET REVIEW

Investment in infrastructure across Australia, New Zealand and Southeast Asia remains on an upward trajectory, largely in line with annual growth forecasts for the next three years. Strong opportunities in the transport, water and energy infrastructure sectors are driven mainly by population growth and urbanisation.

The Australian construction industry is forecast to grow by 3% annually over the next three years. 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 but growth opportunities are increasing international competition. McConnell Dowell has a solid baseload of work in Victoria and South Australia and is pursuing significant specialised project opportunities in New South Wales, Western Australia and Queensland.

New Zealand's construction industry remains buoyant but competitive as the pace of growth accelerates in line with increasing demand. Key growth drivers are government plans to develop and maintain road and rail networks for New Zealand's growing population.

Commentary continue

The government recently signalled its intention to take advantage of the all-time low cost of borrowing by expediting approximately NZD6,9 billion of spending on infrastructure projects.

The construction industry in Southeast Asia is forecast to grow at more than 6% annually over the next three years as rapid urbanisation and growing populations drive investment in infrastructure projects. In the highly competitive regional economy, McConnell Dowell remains focused on large-scale civil engineering projects and other infrastructure projects that require specialist skills in marine works, pipelines and tunnelling in Singapore and elsewhere in the region.

Globally, the mining industry continues to offer attractive opportunities. Volumes are expected to continue increasing and associated revenue and profit growth are expected to exceed the growth in volumes.

Within the mining industry, open cut mining accounts for the bulk of expected growth. In Africa, open cut mining accounts for circa 90% of the total volume of material mined. New volumes in open cut mining are expected to account for 80% of all new volume to be brought onstream.

The new African volumes are expected to be primarily located in three regions, namely, Zambia and DRC, West Africa and Southern Africa. The predominant opportunities exist in copper (Zambia and DRC), gold (West Africa) and bulk commodities (coal, iron and zinc) in Southern Africa.

Moolmans is well positioned to take advantage of these opportunities, given its strong reputation and established experience of operating in these regions.

FINANCIAL PERFORMANCE

Aveng reported a headline loss of R205 million (December 2018: R703 million loss (restated)) and a significantly reduced net loss of R170 million (December 2018: R920 million loss).

Basic loss per share was 0,9 cents compared to a 7,2 cents loss in the comparative period and **headline loss per share** was 1,1 cents (December 2018: 5,5 cents loss per share (restated)). The prior period headline earnings were restated following an extensive asset health assessment carried out within Moolmans in the prior financial year. This resulted in certain costs being disaggregated within already recorded cost of sales to better reflect how the asset components are utilised. Consequently, these costs were reflected as a loss on derecognition of components following early component failure. The prior year weighted average number of shares in issue was impacted by the rights issue on 4 July 2018 and the specific share issue relating to the early redemption of the convertible bond.

Statement of comprehensive earnings

Revenue of R11,2 billion (December 2018: R13,4 billion) as the Group proceeded with planned non-core asset disposals.

Net operating profit of R14 million improved from a loss of R484 million in December 2018 including:

- R117 million in operating earnings recorded by Moolmans (December 2018: R166 million loss). The significant improvement in performance follows from the renegotiation of certain contracts coupled with improved operational performance;
- Sustained operational performance at McConnell Dowell, supported by improved project execution which

resulted in a net operating profit of R59 million (December 2018: R55 million profit);
- An improved operating profit at Trident Steel of R50 million (December 2018: R14 million profit);
- An improved operating profit at Aveng Manufacturing of R7 million (December 2018: R31 million loss);
- An operating loss of R142 million (December 2018: R160 million loss) in Construction and Engineering South Africa and Rest of Africa; and
- A positive impact of R94 million across the Group (included above) following the implementation of *IFRS16 Leases* in the current period.

Net finance charges reduced to R217 million (December 2018: R255 million). Excluding the impact of the notional interest charge of *IFRS 16 Leases* (R68 million), the net finance charges reduced due to the repayment of debt and the capitalisation of a portion of the interest on the convertible bond.

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 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 R477 million at 31 December 2019 after depreciation. At 31 December 2019, the discontinued operations right-of-use assets amounted to R881 million.

The Group incurred **capital expenditure** of R383 million (December 2018: R302 million), applying R371 million (December 2018: R247 million) to replace and R12 million (December 2018: R55 million) to expand property, plant and equipment. The majority of the amount was spent as follows:
- R42 million at McConnell Dowell, relating to specific projects across the various businesses; and
- R330 million at Moolmans, primarily as a result of investment in existing fleet.

Assets Held for Sale decreased by R786 million to R3 billion (June 2019: R3,8 billion) due to the movement in the working capital associated with non-core assets and the sale of Aveng DFC, Buildings & Civils, Mechanical & 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 Leases,* decreased by R200 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 R488 million (R211 million non-current liabilities and R277 million current liabilities) at 31 December 2019. At 31 December 2019, the discontinued operations lease liabilities amounted to R854 million after considering lease payments and notional interest.

Liabilities Held for Sale decreased by R488 million to R2,9 billion (June 2019: R3,4 billion) due to the movement in working capital associated with non-core assets and the disposal of Aveng DFC, Buildings & Civils, Mechanical & Electrical and Rand Roads. The transitional impact of *IFRS 16 Leases* resulted in recognition of lease liabilities of R926 million, which were included in the liabilities Held for Sale as at 1 July 2019.

Commentary continue

Amounts due from contract customers for the Group (non-current and current) reduced to R2,3 billion due to unwinding of contracts.

Accumulated losses decreased by R184 million on 1 July 2019 as a result of the implementation of *IFRS 16 Leases*. 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 for the period amounted to an inflow of R174 million and included:

- Cash inflow of R110 million in McConnell Dowell;
- Cash inflow of R261 million at Moolmans;
- Cash inflow of R205 million at Trident Steel;
- Cash outflow of R400 million at Aveng Construction: South Africa;
- Net capital expenditure of R373 million;
- R222 million of proceeds on disposal of non-core assets;
- Debt repayment of R200 million in South Africa; and
- Net finance charges of R219 million.

Cash and bank balances (net of bank overdrafts) decreased to R1,4 billion (June 2019: R1,6 billion) and the net debt position increased to R1 billion (June 2019: R540 million). The increase in debt position was mainly attributable to the recognition of an additional R488 million recognised as a result of *IFRS 16 Leases* lease liabilities. Excluding the impact of *IFRS 16 Leases* net debt increased marginally to R549 million.

Subsequent to 31 December 2019 the Group arranged an additional short-term working capital facility with the South African Banking group to address a seasonal low point in the Group's cash flow that was exacerbated by specific, but unanticipated market events in the latter part of the 2019 calendar year and timing delays with non-core asset sales.

OPERATING REVIEW

Safety

The Group achieved its primary goal of zero fatalities during the period under review.

The total recordable injury frequency rate (TRIFR) was 0,77 (December 2018: 0,77). This was better than 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.

CORE BUSINESSES

Construction & Engineering: Australasia and Asia

McConnell Dowell

The business comprises four business units – Australia, New Zealand and Pacific, Southeast Asia and Built Environs.

Revenue decreased by 1% to AUD461 million (December 2018: AUD467 million) due to lower revenues in Australia and Southeast Asia. This was offset by growth in New Zealand and Built Environs. The revenue comprises a well-diversified mix of alliance (36%), construct-only (27%) and design-construct (33%) contracts which improves McConnell

Dowell's risk profile. Operating earnings of AUD6 million were 9% higher than in December 2018 as strong project execution increased the profit margin. The adoption of *IFRS16 Leases*, the new accounting standard for the treatment of leases had a positive impact on earnings. Overall McConnell Dowell was cashflow positive with the majority of business units contributing to this performance.

Australia

Revenue decreased by 11% to AUD196 million (December 2018: AUD219 million) due to the timing of project completion and commencement of new projects. Operating earnings benefited from improved project execution as the region reported zero loss making projects and over 70% of projects achieved or exceeded budgeted profitability. The successful Western Program Alliance is delivering consistent profitability and represents a source of ongoing negotiated repeat work. New awards included the Mordialloc Bypass JV project, South Australia Water Frameworks, the Echuca Moama Bridge project and additional Western Program Alliance packages in Victoria and South Australia.

Southeast Asia

Revenue decreased by 25% to AUD82 million (December 2018: AUD110 million) as the business continued to experience the effects of a highly competitive market. Positive operating earnings were supported by good project execution and an improvement in the performance of the Tangguh LNG export jetty project following the renegotiation of the contract in June 2019. New management clarified the Southeast Asia strategy and is awaiting the outcome of a significant volume of tenders. Preferred contractor status was secured on marine projects in the Philippines and Malaysia.

New Zealand and Pacific Islands

Revenue increased by 41% to AUD133 million (December 2018: AUD94 million). Operating earnings benefited from strong performances on several projects, including Waterview and Wynyard Edge. New awards including the Old Mangere Bridge replacement project, St Mary's and Westland Milk outfall projects, Auckland International Airport terminal development and fuel network project, together with repeat work on the Watercare project, contributed to a solid baseload of work. The business unit continues to target growth opportunities in areas where McConnell Dowell has a record of successful project execution.

Built Environs

Revenue increased by 14% to AUD50 million (December 2018: AUD44 million) despite initial slow progress on the Auckland City Mission and Wingfold Tower projects awarded in 2019. Operating earnings were impacted by under-recovery of overheads as the business awaits the award of several tenders. However, a strong cash flow performance was recorded during the period. Built Environs continues to pursue new work in New Zealand following the strategy to expand its geographic footprint. New awards included the Puhinui Station upgrade project in New Zealand and the Modbury Hospital project in South Australia. The Puhinui Station project achieved a major milestone in October 2019 with the successful deconstruction of the central station ramp during a rail closure.

McConnell Dowell maintained world class safety performance. The business reported zero fatalities and both the total recordable injury frequency rate (TRIFR) of 0,51 and the lost time injury frequency rate (LTIFR) of 0,06 tracked below the respective targets of 1,00 and 0,09.

Commentary continue

McConnell Dowell continued to make progress in the digitisation of its sustainability reporting systems which contributed to improved compliance with sustainability requirements.

Moolmans

Moolmans achieved 12% growth in revenue to R2,3 billion (December 2018: R2,0 billion) and returned to profitability with earnings of R117 million (December 2018: R166 million loss), in line with management expectations. The Nkomati contract was renegotiated and extended to September 2020. The contract is contributing positively to earnings. Renegotiation of the rates and conditions of certain other contracts contributed to the encouraging performance improvement. The Gamsberg contract improved performance over the period.

Moolmans' operating free cash flow was positively impacted by the improvement in operational performance and positive working capital management. Working capital management remains an area of high focus as industry players seek to extend payment terms.

The achievement of the three-year business plan remains a priority. Management continues to review all parts of the business to build on the recent positive momentum. This includes:

- Enhancing the business development function;
- Growing the available opportunity pipeline;
- Broadening the customer base;
- Strengthening risk management, systems and performance; and
- Further improving equipment maintenance practices to enhance equipment availability and efficiency.

Moolmans reported zero fatalities and no major environmental incidents as senior management continued to implement the 'visible felt leadership' programme. TRIFR of 0,74 tracked below the target of 0,78 but LTIFR of 0,30 was above the target of 0,20 due to seven LTIs (July to December) across Moolmans' operations, which resulted in mainly hand and foot injuries. Several commendable safety performances were achieved, including:

- 1 036 LTI-free hours at Kolomela mine; and
- 600 LTI-free hours at Union mine.

NON-CORE BUSINESSES

Construction & Engineering: South Africa and rest of Africa

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

Revenue decreased by 57% to R1,2 billion (December 2018: R2,7 billion) as business units were disposed of and the business reported a net operating loss of R142 million (December 2018: R160 million loss). While the majority of business units were break-even or marginally profitable, the performance was negatively impacted by:

- Underperformance on the Leonardo building project. Subsequent to the period under review, Aveng received a notice from the developer to terminate the Leonardo contract. Aveng's position is that the termination is invalid as the developer is in material breach of the contract. The Group considers the action to be a repudiation of the contract. Aveng has, however, accepted the repudiation and has therefore terminated the contract while fully reserving its rights. The Group regards the project to be practically complete for the purposes of its intended use. The developer has called the performance bond which has been settled by the bond provider; and
- The Pampoensnek and Ventersburg road contracts which are close to completion and proceeding as planned.

All of the Aveng Construction: South Africa business units, with the exception of GEL, were sold with effect from November or December 2019. The Group continues to manage four active contracts to completion.

Manufacturing and Processing

This operating segment comprises Trident Steel and Aveng Manufacturing.

Trident Steel

The revenue of Trident Steel decreased by 17% largely as a result of the restructuring of the tube and Roodekop merchanting divisions. The business reported an operating profit of R50 million (December 2018: R14 million). This result includes once-off restructuring costs of R37 million and the positive impact of IFRS adjustments of R61 million. Trident Steel generated R205 million operating free cash flow, mainly as a result of a bulk sale of inventory at the Roodekop plant. 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 and the benefits of the restructuring are expected to positively impact the full year.

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 24% decrease in revenue to R823 million (December 2018: R1,1 billion) and a net operating profit of R7 million (December 2018: R31 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;
- Continued profitability by ACS; and
- A positive impact of R24 million following the adoption of *IFRS 16 Leases*.

TWO-YEAR CORE ORDER BOOK

The order book for the Group's core assets amounted to R17,9 billion at 31 December 2019, increasing by 1% since 30 June 2019. This secures 93% of the budgeted revenue for the core operations in 2020. Further wins amounting to AUD350 million have been recorded in January 2020.

OUTLOOK

Aveng is focused on completing the disposal of the non-core assets in 2020, reducing debt and finance charges, continuously improving the operational performance of both core businesses and growing their order books profitably in order to achieve the Group's three-year business plan.

Liquidity, cash and cost reduction remain an ongoing priority. The cash flow performance although improved, continues to receive a high level of focus, notably the collection of overdue debtors. While the Group experienced delays in completing some of the previously announced transactions, the proceeds from the disposal of non-core assets are expected to contribute to the progressive improvement in the quality of Aveng's balance sheet, with the objective of achieving a sustainable long-term capital structure.

Commentary continue

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

EK Diack
Executive Chairman

SJ Flanagan
Group Chief Executive Officer

AH Macartney
Group Finance Director

Date of release: 24 February 2020

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