AVENG

Audited consolidated
annual financial statements
2018

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General information

Country of incorporation and domicile	South Africa	
Directors	Mr Eric Diack (executive chairman)	Appointed 23 August 2017
	Ms Kholeka Mzondeki (lead independent director)	Appointed 23 August 2017
	Mr Hendrik Jacobus Verster	Resigned 22 September 2017
	Mr Mahomed Seedat	Resigned 24 November 2017
	Mr Juba Mashaba	Resigned 31 August 2018
	Mr Peter Erasmus	Deceased 4 February 2018
	Ms Mavis Ann Hermanus	
	Mr Michael Kilbride	
	Ms Thoko Mokgosi-Mwantembe	Resigned 24 November 2017
	Mr Adrian Macartney	
	Mr Philip Hourquebie	
	Mr Sean Flanagan	
Auditors	Ernst & Young Inc.	
Secretary	Edinah Mandizha	Appointed 13 September 2018
	Michelle Nana	Resigned 30 June 2018
Company registration number	1944 / 018119 / 06	
Level of assurance	These consolidated annual financial statements have been audited in compliance with the applicable requirements of the Companies Act 71 of 2008 (as amended) of South Africa.	
Supervised by	The audited consolidated annual financial statements were prepared by: Efstathios White CA(SA) under the supervision of: Adrian Macartney CA(SA), Group CFO	
Published	25 September 2018	

Audit and Risk Committee report

Change in composition of the audit and risk committee

In August 2017, the appointment of Mr Eric Diack as Executive Chairman of the Group required a change in the composition of the Audit Committee. Mr Diack stepped down as Chairman and member of the Audit Committee. Mr Philip Hourquebie was appointed as Chairman of the Audit Committee. Mr Peter Erasmus was appointed at that time to replace Mr Diack as a member of the Audit Committee. Sadly, Mr Erasmus passed away on 4 February 2018. Subsequently, in February 2018, the activities of the Audit and Risk Committees were combined. As a result, Messrs Michael Kilbride and Sean Flanagan now serve as standing members of this combined committee.

Performance of duties

The Audit and Risk Committee has been constituted in accordance with applicable legislation and regulations. The Committee members are all independent non-executive directors of Aveng Limited. Five scheduled and five special Audit and Risk Committee meetings were held during the year, at which the members fulfilled their functions as prescribed by the Companies Act 71 of 2008 (as amended) of South Africa. The Audit and Risk Committee confirms that it is satisfied with the independence of its external auditor, Ernst & Young Inc.

Evaluation of the Finance Director and finance function

In accordance with the Johannesburg Stock Exchange Limited (JSE) Listings Requirements, the Audit and Risk Committee is required to consider the appropriateness of the expertise and experience of the Group CFO. In respect of this requirement and for the year under review, the Committee is satisfied that Mr Adrian Macartney, the Group CFO, possesses the appropriate expertise and experience to fulfil his responsibilities in that position. Whilst the Group finance function was enhanced with the appointment of a Group financial controller during the year, the finance function has been depleted due to the resignation of a number of staff. Certain key vacancies were filled during the period. Management will be reviewing the function to ensure it is fit for purpose for the Group in transition and in the medium term for the newly constituted Group through a structured recruitment plan, combining talent management and succession planning.

Statement on internal financial controls

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

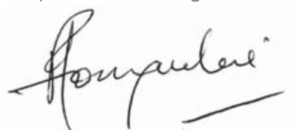
Liquidity and going concern

As included in the directors' report, and further detailed in *note 1: Presentation of consolidated financial statements* to the financial statements, in determining the appropriate basis of preparation of the financial statements, the directors are required to consider whether the Group can continue in operational existence for the foreseeable future. The directors have considered the agreements reached and transactions concluded post the year end, the actions taken by the Group, the financial plans and forecast, including all available information, and are of the opinion that the going concern assumption is appropriate in the preparation of the financial statements.

This Committee has interrogated the key assumptions used in determining the cash flow forecasts used in the going concern assessment, including the post year end revised Common Terms Agreement concluded with the South African lending banks, the early redemption of the convertible bond, the successful rights issue completed, the current status of the non-core assets, disposal plan and other initiatives already embarked on by the Group. The committee was satisfied that the assumptions are supportable. The Committee was further satisfied with the post year end events going concern and liquidity disclosures in the directors' report and within the notes to the financial statements.

Statement on internal control and risk management

The risk management function together with management, identifies and monitors potential risks faced by the Group and the risk mitigation strategies proposed and implemented by management. The internal audit functions monitors the effectiveness of internal control systems and make recommendations to management and the Audit and Risk Committee. The Board has concluded, based on the recommendation of the Audit and Risk Committee and their own understanding, that there is no reason to believe that there were any material internal control or risk management shortcomings during the current financial year that have not been addressed or are in the process of being addressed.



PA Hourquebie
Chairman
Audit and Risk Committee

25 September 2018

Executive chairman's report

Aveng commenced the 2018 financial year in a precarious financial position, following the lower than expected QCLNG award which necessitated a material write down of uncertified revenue in the 2017 financial results, urgent negotiation of bank debt and an extensive strategic review. Our position was compounded by difficult operating conditions in all of our domestic markets which restricted our ability to generate adequate cash flow from our South African operations. However, McConnell Dowell in Australia returned to profitability and its turnaround strategy positions it to capitalise on buoyant markets.

Overview

During the year to 30 June 2018, Aveng reported a headline loss of R1,7 billion (2017: R6,4 billion loss) attributable to a number of detrimental events. During the first half of the year, management embarked on an extensive strategic review to ensure the Group's sustainable future. This review was completed, presented to and approved by the Board in early February 2018 following a thorough and robust interrogation of all parts of the business. The strategy is to focus Aveng on being an international infrastructure and resources group operating in selected fast-growing markets, capitalising on its considerable knowledge and experience. The review included identifying businesses and assets that are core to the Group which support the overall long-term strategy, determining the most appropriate operating structure, as well as recommending a sustainable future capital and funding model. This resulted in management identifying non-core assets and announcing their disposal. During the second half of the year, management concluded that these non-core assets should be classified as Held for Sale. Valuations were carried out in-house, which were subsequently reviewed by an independent consultant. Following this change in accounting classification and the related change in valuation approach, management decided to write down the non-core assets to a realisable value that is appropriate, taking into consideration the decision to dispose of these assets in current market conditions. The Board interrogated and approved these valuations and the subsequent impairments.

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

Deleveraging the balance sheet

The six stages of our strategic plan were launched simultaneously, but our most urgent priority was to reduce Aveng's unsustainable debt levels, which were largely the result of historic operating losses. At 30 June 2018 the Group's debt amounted to R3,3 billion (including bank debt of R1,3 billion and convertible bonds of R2 billion). The looming repayment of the bonds and liquidity requirements to sustain our operations placed significant constraints on our ability to operate effectively. Uncertainty about the Group's ability to refinance the bonds when they mature in July 2019 contributed to the negative sentiment amongst stakeholders. To address these concerns, we implemented the following urgent actions:

- Rights offer

  In July 2018, Aveng successfully concluded a rights offer to qualifying Aveng shareholders. In an expression of confidence in the Group's strategy, 98,6% of the rights offer shares were taken up, with the result that R493 million of new capital was raised to reduce the Group's net debt position and strengthen its balance sheet.

- Early redemption of bonds

  In April 2018, Aveng announced plans to redeem the R2 billion convertible bonds before they matured in July 2019. Having engaged extensively with our bondholders, shareholders and lenders and secured their support, Aveng concluded a specific buy-back of R657 million of the bonds at 70% of the principal amount (30% discount). The specific bond buy-back at the discounted value, was required to facilitate the overall bond conversion process, ensuring that our major bondholders and shareholders did not breach prescribed limits with regards to maximum shareholding levels in Aveng or triggering a mandatory offer. The bond buy-back was funded by the issue of a new debt instrument of R460 million. All remaining outstanding bonds, together with accrued interest (approximately R1,4 billion) were redeemed through the issue of Aveng shares at R0.10, which was equivalent to the rights offer price. Following the approval of bondholders and shareholders, including that of our largest shareholder, Aton, this transaction was concluded on 25 September 2018.

- Bank debt

  In the second half of the financial year, Aveng secured an additional R400 million in bank debt from its South African lending banks, providing greater certainty and improved liquidity. The revised Common Terms Agreement, concluded after year end includes renewed facilities and extended funding terms until 2020.

- Cash generated by the operations

  An improved cash management process was implemented across the South African operations of Aveng to improve the accuracy of cash flow forecasting and which, in turn, allowed for more efficient planning and management of cash resources throughout the Group. The results hereof positively impacted the liquidity of the Group in the second half of the year.

Composition of the Board

On 23 August 2017, I assumed the responsibilities as Executive Chairman and following the resignation of Kobus Verster on 22 September 2018, also as acting Chief Executive Officer.

On 4 February 2018, Peter Erasmus sadly passed away. Peter joined the Board in 2011 and served as an independent non-executive director and Chairman of the Risk Committee. Mahomed Seedat and Thoko Mokgosi-Mwantembe did not stand for re-election as directors at the AGM on 24 November 2017. Thoko joined the Board in 2010 and Mahomed joined the Board 2012 and was Chairman from 2015 until 2017. Both served as independent non-executive directors. Subsequent to the year end, Juba Mashaba resigned as Group executive director with effect from 31 August 2018. Juba joined Aveng and the Board in 2007.

The Board offers its condolences to the family of Peter Erasmus. We thank Mahomed, Thoko and Juba for their service to Aveng and wish them well in their future endeavours.

May Hermanus succeeded Mahomed as Chairman of the Social, Ethics and Transformation Committee and Kholeka Mzondeki was appointed as Lead Independent Director and succeeded Thoko as Chairman of the Remuneration and Nomination Committee. The Risk and Audit Committees were combined on 21 February with Philip Hourquebie as Chairman, adding Sean Flanagan and Michael Kilbride to the Committee. Sean Flanagan was appointed to the Safety, Health and Environment Committee.

Outlook

The Aveng Board and management continuously evaluate opportunities to maximise cash flows and unlock value for Aveng stakeholders. The completion of the capital markets transactions and conclusion of the revised Common Terms Agreement provides the necessary stability to execute the remaining steps of the strategy. Our immediate focus is to further stabilise and improve operations at each of our businesses, and to ensure the timeous disposal of the identified non-core businesses and assets at acceptable value.

The order books of McConnell Dowell and Moolmans have declined by 34% and 21% respectively and need to be replenished. Winning new work will remain a key focus for both businesses.

The markets serviced by McConnell Dowell offer significant opportunities, but remain competitive. The approximate value of work pursued by McConnell Dowell through Early Client Involvement (ECI) projects is c. AUD1,25 billion and the likelihood of converting this to contract awards is higher than it would be with traditional tendering methods.

Moolmans will be enhancing its business development focus and processes and is pursuing a number of opportunities within a competitive market. While the long-term nature of open cut contracts mitigates the impact of downturns, they take longer to adjudicate. As new contracts or contract renewals are awarded in an improving commodity market, pricing will also improve.

Moolmans will continue to rebalance its geographic, client and commodity portfolios to spread risk, with a strong focus on increasing its work outside South Africa, while continuing to optimise its business. Despite the temporary headwinds, Moolmans' management believes it has a strong platform for value creation.

The Board has re-affirmed its support for the strategy and the core businesses, supported by an executive team that is delivering on the Strategic Action Plan.

On behalf of the Board, I would like to express our gratitude to the team of executives, senior management and employees who are implementing our strategic plan while navigating extremely difficult operating conditions. I would also like to thank our funding banks, shareholders, customers, suppliers and partners who continue to support us.

EK Diack
Executive Chairman

25 September 2018

Certificate of the company secretary

I, the undersigned, Edinah Mandizha, in my capacity as company secretary, certify that:

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

E Mandizha
Company Secretary

25 September 2018

Directors' report

The directors submit their report for the year ended 30 June 2018.

1. Review of activities

Nature of business

The consolidated annual financial statements (results) comprise the financial results of Aveng Limited and its subsidiaries (the Group) at 30 June 2018. Aveng Limited (the Company) is a South African registered and listed company, included in the Construction and Materials – Heavy Construction sector of the Johannesburg Stock Exchange (JSE) (Listing reference: "AEG") with interests in construction, contract mining, manufacturing and steel beneficiation. Primary subsidiaries include Aveng (Africa) Proprietary Limited and Aveng Australia Holdings Proprietary Limited.

Execution of Group-wide strategic review

Management embarked on an extensive Group-wide strategic review to ensure the Group's sustainable future. An independent professional adviser was engaged to assist with the process. The review was completed, presented to and approved by the Board in early February 2018 following a thorough and robust interrogation of all the parts of the business. This review was undertaken:

- to identify operating businesses and assets that are core to the Group and that support and enhance the long-term sustainability of the Group, and conversely those businesses and assets that are non-core;
- to recommend a sustainable future capital and funding model for the Group, including a capital markets transaction to address the convertible bond maturing in July 2019; and
- to determine the most appropriate Group operating structure, to both support and enhance the future sustainability of the Group. The strategic review concluded that the Group is to focus on being an international infrastructure and resources Group operating in selected fast-growing markets, capitalising on its considerable knowledge and experience.

The strategic review resulted in an action plan comprising six key workstreams:

1. Simplify – to reduce the number of operating groups to two and reduce the business units to five.
2. Reshape – to reshape the operating structure in line with a smaller, focused Group.
3. Grow – to improve revenue growth and profitability of core operations.
4. Dispose – to dispose of non-core businesses and assets.
5. Deleverage – to reduce the debt burden to a level sustainable by core businesses.
6. Unlock value – to deliver shareholder value through optimisation of core operations and disposal of non-core assets.

The Strategic Action Plan has been implemented across the Group. This has yielded positive results, notably the announced disposals of non-core assets and particularly the post year end capital markets transactions and conclusion of the revised Common Terms Agreement as recorded in *note 50: Events after reporting period and pending transactions.*

Group financial results

Overall trading performance

The Group continued to experience difficult operating conditions and continued underperformance in a number of business units.

McConnell Dowell in Australia, returned to profitability and generated a positive cash flow from operations. McConnell Dowell embarked on a more customer-centric settlement approach to resolve long-outstanding uncertified revenue and claims. This yielded good results, with 20 of the 24 identified legacy claims being settled largely in line with the expected values. Project performance improved with greater consistency of execution.

Moolmans' operating performance was significantly below expectations, notably in the second half. This led to a comprehensive Group-led turnaround intervention being implemented. This included an immediate and urgent focus on improving contract performance, negotiating contractual terms and where necessary, exiting contracts. These interventions resulted in greater stability by year end and positive progress post year end. This intervention is continuing as there is still much to be achieved.

Aveng Grinaker-LTA underperformed in the first half. New leadership, appointed part way through the second half, has made significant positive change and brought about greater focus and stability. The underperformance was primarily in the Civil Engineering and Building business units, with Mechanical & Electrical, and Water contributing positively.

Aveng Manufacturing underperformed with lower revenue levels and operational underperformance in two business units resulting in operating losses.

Aveng Steel contributed positively to operating profit and remained cash flow breakeven in continued difficult trading conditions.

Liquidity and cash management has received a significant focus during the year, with the assistance of independent external consultants. This process was implemented across the South African operations to improve the accuracy of cash flow forecasting and which, in turn, allowed for more efficient planning and management of cash resources. The results hereof positively impacted the liquidity of the Group in the second half of the year.

Directors' report continued

1. Review of activities continued

The Group reported a substantially reduced headline loss of R1,7 billion or (311,6) cents per share for the year ended 30 June 2018, compared to a headline loss of R6,4 billion or (1 198,0) cents per share for the preceding year. Revenue increased by 30,3% to R30,6 billion (2017: R23,4 billion) mainly due to claims write-down, with McConnell Dowell being most significantly impacted in the prior period. The net operating loss reduced to R401 million from a loss of R5,4 billion in June 2017. Weak trading conditions persisted in the South African market, combined with operational underperformance in domestic businesses impacted the overall result, after excluding the effect of the previous period's revenue write-down. The poor performance was partially offset by the return to profitability in McConnell Dowell and Steel.

The Group generated a basic loss attributable to equity holders of the parent of R3,5 billion (2017: R6,7 billion loss) after taking account of the impairments and fair value adjustments primarily associated with non-core assets.

Full details of the financial position and performance and changes therein for the Group are set out in the consolidated financial statements on pages 18 to 132.

Assets Held for Sale – Impairment of goodwill, property, plant and equipment, intangible assets and disposal groups

Following the strategic review, the decision to dispose of non-core assets has resulted in the consideration of impairment and the reclassification of these assets as Held for Sale at year end. This required the realisable value to be assessed under a different valuation approach, being fair value less costs to sell. Management performed this assessment with the support of an independent consultant. The Board interrogated and approved these valuations and the related impairments and fair value adjustments. This change in measurement criteria has resulted in adjustments to non-core asset values and related assets such as deferred taxation. An impairment charge of R1,3 billion (2017: R278 million) was mainly recognised against goodwill, intangible assets, property, plant and equipment, and R195 million against equity-accounted investments. Fair value adjustments on assets transferred to Held for Sale amounted to R807 million. Refer to *note 8: Impairments* and *note: 20 Assets and liabilities Held for Sale*.

Deferred tax asset impairment

The reclassification of non-core assets and change in measurement criteria thereof, resulted in an impairment of R509 million. Refer to *note 14: Deferred taxation*.

Liquidity, solvency, ongoing funding, rights issue, early redemption of convertible bond, and the going concern assertion

In determining the appropriate basis of preparation of the financial statements, the Board is required to consider whether the Group and Company can continue in operational existence for the foreseeable future. The financial performance of the Company is dependent upon the wider economic environment in which the Company operates.

Management has prepared a budget and business plan for the 2019 financial year and the following two years, as well as cash flow forecasts covering a minimum of 12 months from the date of these financial statements. These forecasts have been prepared with the assistance of independent external advisers 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 and liquidity forecasts, the Board has considered the following information up to the date of approval of these financial statements:

- Strategy adopted by the Board and announced on 26 February 2018;
- Successful R493 million rights issue concluded on 4 July 2018;
- Early redemption of the R2 billion convertible bond, including the successful raising of a new R460 million debt instrument to facilitate the settlement of R657 million of existing convertible bonds at a 30% discount ahead of the early redemption. The remaining R1,4 billion bonds were settled through the specific issue of ordinary shares at R0,10 per share on 25 September 2018:
- Implementation of a revised Common Terms Agreement with the SA lending banks that includes renewed facilities, additional funding of R400 million and extended funding terms to 2020;
- Updated non-core asset disposal plan, targeting majority of disposals by 30 June 2019, including the announced property disposals of R254 million;
- Updated budget and business plans for the post year end period up to 31 December 2019 for the Group, incorporating the benefits already realised from the Strategic Action Plan such as improved operating performance, greater predictability of performance and working capital enhancements, as well as future benefits to liquidity to be achieved once non-core businesses have been disposed;
- Sensitivity testing of key inputs included in the operating and liquidity budgets to ascertain the effect of non-achievement of one or all of the key inputs (operational performance, non-core asset disposal timing), including any effect on the ongoing compliance with covenant requirements in place with the SA lending banks, Australian banks and other financing agreements;
- A short-term liquidity forecast management process that has been introduced and embedded in all the South African operations with the help of external consultants.

The Group has cash of R2,1 billion (2017: R2,0 billion) at year end, R568 million (2017: R625 million) of which is held in joint arrangements. Advance payments that will be used in the short term amount to R85 million (2017: R146 million) while short-term debt repayments are R255 million (2017: R704 million). After working capital requirements of R800 million (2017: R800 million) and unutilised facilities of R536 million (2017: R1,4 billion), the short-term liquidity of the Group is considered to be satisfactory to the Board with liquidity headroom of R904 million. This position is further enhanced after the conclusion of the capital markets transactions detailed in *note 50: Events after reporting period and pending transactions*.

1. Review of activities continued

Having considered the above information, the underlying assumptions and all other relevant information, the Board is satisfied that the Group has adequate liquidity headroom and as such, is a going concern.

Confirmation of the going concern assertion

The Board has considered the agreements reached and transactions executed post the year end, the actions taken by the Group, the financial plans and forecasts, including all available information, and are of the opinion that the going concern assumption is appropriate in the preparation of the financial statements.

For further information on all the disclosures included above, refer to *note 5: Going concern and liquidity* in the financial statements.

Unconsolidated structured entities

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

Community Investment Trust

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

Empowerment Trust

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

Capital expenditure

Capital expenditure of R786 million for the year (2017: R955 million) related to R138 million (2017: R135 million) of expansion investment and R625 million (2017: R793 million) replacement investment in property, plant and equipment, and R23 million (2017: R27 million) investment in intangible assets. Net book value of property, plant and equipment disposed amounted to R162 million (2017: R168 million).

2. Major business acquisitions and disposals of assets

Business restructuring and non-current assets Held for Sale

As detailed in *note 7: Segmental Report*, the Board made the decision that the operating groups of the following reportable segments no longer form part of the overall long-term strategy of the Group:

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

The intention of the Board to discontinue the operations of these reportable segments and the subsequent classification of the underlying assets and liabilities as Held for Sale is an indicator of impairment. The appropriate impairment and fair value adjustments have been recorded. Refer *note 20: Assets and liabilities classified as Held for Sale*.

3. Events after the reporting period

In addition to the items discussed under liquidity and solvency refer to *note 50: Events after the reporting period and pending transactions.*

4. Share capital and share premium

Details pertaining to the authorised and issued share capital of the Company at 30 June 2018 are contained in *note 21: Share capital and premium* of the consolidated annual financial statements. In addition, details pertaining to the rights issue and bond conversion are contained in *note 50: Events after the reporting period and pending transactions*.

5. Directors

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

- Mr Philip Hourquebie;
- Mr Michael Kilbride; and
- Ms May Hermanus*

**It should be noted that in terms of King IV, an independent director who has served on the Board for nine years should be subjected to a rigorous review of his / her independence and performance. Ms May Hermanus has served on the Board for nine years, and in giving effect to the above, Ms Hermanus completed the independence evaluation test which was assessed by the remuneration and nominations committee and recommended to the Board. Based on the review, the Board concluded that Ms Hermanus is still independent.*

The following changes were made to the Board to the date of this report:

- Ms Thoko Mokgosi-Mwantembe – resigned 24 November 2017
- Mr Mahomed Seedat – resigned 24 November 2017
- Mr HJ Verster – resigned 22 September 2017
- Mr Peter Erasmus – deceased 4 February 2018
- Mr Juba Mashaba – resigned 31 August 2018

Directors' report continued

5. Directors continued

Details of the directors' remuneration and interests are set out in *note 46: Directors' emoluments and interests* of the consolidated annual financial statements.

One of the key principles in King IV is the establishment of a unitary Board which reflects a balance of power. In order to ensure that no one individual, or group of individuals wield unfettered power on the Board, King IV proposes the appointment of independent non-executive directors. It should be noted upfront that all directors, regardless of the classification as an executive, non-executive or independent non-executive director, require the application of an independent state of mind and objective judgement. In essence, all directors are required to act in the best interests of the Company at all times and this can only be achieved if directors set aside their personal interests.

6. Auditors

Ernst & Young Inc. continued in office as the external auditors of the Group. At the annual general meeting shareholders will be requested to appoint Ernst & Young Inc. as the Group's auditors for the 2019 financial year.

7. Shareholders

The following information will be available on 25 September 2018 on the Group's website:

- shareholders' diary.

8. Directors' responsibility relating to the consolidated annual financial statements

The directors of the Company are responsible for maintaining adequate accounting records and are responsible for the content and integrity of the consolidated annual financial statements and related financial information included in this report. It is their responsibility to ensure that the consolidated annual financial statements fairly present the state of affairs of the Group as at the end of the financial year and the results of its operations and cash flows for the period ended 30 June 2018.

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

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

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

The Board has reviewed the Group's cash flow forecast for the period ending 31 December 2019 and in light of this review and the current overall net cash position, following the post year end developments as contained in *note 50: Events after the reporting period and pending transactions*, are satisfied that the Group has access to adequate resources to continue in operational existence for the foreseeable future and accordingly the consolidated annual financial statements are prepared on a going concern basis.

The external auditors are responsible for independently reviewing and reporting on the Group's consolidated annual financial statements. Their unmodified report to the shareholders of the Company is set out on pages 9 to 17.

Approval of consolidated annual financial statements

The consolidated annual financial statements of the Group for the year ended 30 June 2018 set out on pages 18 to 132, which have been prepared on the going concern basis, were approved by the Board of directors on 25 September 2018 and were signed on its behalf by:

EK Diack
Executive Chairman

AH Macartney
Group CFO

Independent auditor's report to the shareholders of Aveng Limited

Report on the audit of the consolidated annual financial statements

Opinion

We have audited the Consolidated and Separate financial statements of Aveng Limited (the "Group" and the "Company") set out on pages 18 to 132, which comprise the Consolidated and Separate statements of financial position as at 30 June 2018, and the Consolidated and Separate statements of comprehensive income, the Consolidated and Separate statements of changes in equity and the Consolidated and Separate statements of cash flows for the year then ended, and the notes to the Consolidated and Separate financial statements, including a summary of significant accounting policies.

In our opinion, the Consolidated and Separate financial statements present fairly, in all material respects, the Consolidated and Separate financial position of the Group and the Company as at 30 June 2018, and its Consolidated and Separate financial performance and its Consolidated and Separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Companies Act of South Africa.

Basis for opinion

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

Key audit matters

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

The key audit matters detailed below are all applicable at an Aveng Limited Group level. The first key audit matter relates to both the Group and Company whilst the other key audit matters do not relate to the Company.

	Assessment of key audit matter	How the matter was addressed in the audit
1	**Events after the reporting period – Liquidity, solvency, ongoing funding, rights issue, early redemption of convertible bond and evaluation of the effect on the assessment of the going concern assumption performed by management**	
	There were significant events which took place after the reporting period. These events included: ▶ Renounceable rights issue to qualifying shareholders concluded on 4 July 2018; ▶ Early redemption of a portion of the corporate bond followed by the specific issue of new equity to facilitate the early redemption of the remainder of the corporate bonds to equity; ▶ Raising of a new facility for R460 million to facilitate the early redemption of the corporate bond; ▶ Changes to the Common Terms Agreement (CTA) with the SA funding banks (SA lenders) to extend capital repayment to match anticipated non-core asset disposal proceeds; and ▶ Disposal of non-core assets. **Assessment of the above:** The impact on forecast liquidity and on management's going concern assessment arising from these events after the reporting period was considered to be a key audit matter. The events described above were considered to be interdependent and are collectively complex, requiring management to engage legal and financial experts to assist them in assessing the impact on the liquidity and solvency of the Group.	**Our audit procedures included:** ▶ Understanding the process management have followed to make their assessment as to whether any of the significant transactions which took place after the reporting period are adjusting or non-adjusting events. ▶ Obtaining the bank statements which reflect the receipt of R493,2 million relating to the Rights issue. ▶ Inspecting the updated share register post the Rights issue. ▶ Inspecting the signed facility agreement for the new facility of R460 million. ▶ Inspecting the bank statements which reflect the receipt of R460 million. ▶ Inspecting the issue of new shares on 25 September 2018 from the transfer secretary. ▶ Understanding the process management have followed to make their assessment regarding the going concern assumption. ▶ Evaluating the assumptions on which management's assessment of going concern is based. ▶ Evaluating management's plans for future actions including the disposal of the remaining non-core assets and their ability to realise the fair value less costs to sell as determined by the valuation process. ▶ Evaluating the appropriateness of the budget and forecast systems in place, including key sensitivity tests undertaken on primary inputs.

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

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

1 Events after the reporting period – Liquidity, solvency, ongoing funding, rights issue, early redemption of convertible bond and evaluation of the effect on the assessment of the going concern assumption performed by management

Assessment of the above (continued):
The future events relating to the disposal of non-core assets and the forecasting of cash flows from non-core (until they are disposed of) and core businesses required management to assess different scenarios, all with different probabilities of success.

The new terms and undertakings agreed with the SA lenders post year end in the CTA are significant to our audit as they impact the Group's forecast liquidity model and are linked to the timing of the process of non-core asset disposals.

Management included the changes to the CTA approved by the SA lenders in the liquidity forecast model approved by the Board. This primarily related to the updated assumptions in respect of the disposal of non-core assets and the timing of the repayments to the SA lenders.

The forecast liquidity model required evaluating the forecast operating free cash flows for the Group, assessing post year end liquidity performance, updating the model for the impact of all known events at the time of conclusion, and performing sensitivity testing on the model before approval by the Board. The evaluation and conclusion process adopted by the Board are key aspects that support the going concern assertion.

Specific auditor attention was required to assess whether the judgements and assumptions applied by management were reasonable and supported by evidence or are based on future events with different degrees of probability.

In particular the primary areas of audit focus in terms of the forecast liquidity model related to:
(a) the cash flows from operations both core and non-core;
(b) the timing and likelihood of success of the disposal of the non-core assets and how this affects the outcome of "a" above; and
(c) how these interplay with the continued availability of the funding from the SA Lenders under the revised CTA.

Auditor attention was required to assess whether there was sufficient liquidity after applying certain sensitivities to the liquidity model in respect of the areas noted above. This included assessing the impact of reducing the Operational EBIT and assuming delays in achieving the disposal of certain non-core assets in accordance with the timeline. Additional work was also done to assess whether all known facts and circumstances related to the non-core asset disposal plan have been appropriately taken into consideration in the liquidity model, and whether the evaluation of the overall liquidity headroom was appropriate after considering the ability of the Group to meet forecasts based on prior history.

As a result of the large number of uncertain future events there were a number of scenarios to take into account which resulted in additional auditor focus.

- Evaluating the reliability of the underlying data generated to prepare the forecasts.
- Comparing prior period forecasts with historical results to assess the accuracy of managements forecasting abilities.
- Comparing the current period forecasts with results achieved to date.
- Inspecting whether the liquidity forecasting model is consistent with the budgets and forecasts used to support the deferred taxation balance and Cash-Generating Unit (CGU) impairment assessments.
- We have specifically devoted attention to the assumptions made with respect to future initiatives, the results and the cash flows in order to assess the Company's ability to continue meeting its payment obligations and its obligations under the financing covenants in the year ahead.
- Evaluating the existence, adequacy and terms of borrowing facilities.
- Obtaining the signed revised Common Terms Agreement dated 13 September 2018 from the SA lenders indicating that they have agreed to revise the repayment dates and amounts of the RCF and Term loans and that they have agreed to extend the existing facilities into the foreseeable future.
- Inspecting the external legal opinion obtained in relation to the Companies Act requirements relating to solvency, liquidity and going concern.
- Inspecting the minutes of the Board meeting evidencing that the directors have assessed the Companies Act requirements in relation to the solvency, liquidity and going concern of the Group.
- Inspecting the signed sale agreements for the properties sold awaiting shareholder approval.
- Inspecting the disposal plan approved by the directors and assessing management's ability to dispose of the remaining non-core assets within the time frame indicated and at the values determined through the valuation process.
- Inspecting the non-binding offers available for two of the Manufacturing business units.
- Inspecting correspondence from interested parties to validate the status of the disposal process for other business units.

Refer to page 108 of the financial statements for the notes on events after the reporting period and financing requirements.

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

2 Accounting for contracts

Assessment of key audit matter

The Group has significant long-term contracts in the construction, engineering and mining operating segments.

The construction, engineering and mining industries are characterised by contract risk with significant judgements involved in the assessment of the anticipated final contract outcomes. Changes in any of the significant judgements could result in a material variance in the amount of earnings or losses recognised from individual contracts. During the year new contracts are entered into, contracts are completed and the progress made on existing contracts has changed from the prior year. We are therefore required to completely reassess the contracts and not merely roll forward the work performed in the prior year. As a result, accounting for contracts is considered to be an ongoing key audit matter.

Contract accounting is considered to be an ongoing significant audit risk to the Group as it requires management to exercise a high degree of estimation and judgement in their assessment of the revenue recognition resulting from the contract stage of completion, contract variations and claims; the completeness and accuracy of forecast costs to complete; and the ability to deliver contracts within the requirements of each contract. Furthermore, the Group executes contracts in numerous geographic and operational markets which adds to the complexity of applying judgement.

The Group recognised revenue for the year totalling R30 580 million. As at 30 June 2018 the Group had recognised net uncertified claims and variations for the year amounting to R1 646 million (2017: R1 760 million) as well as related contract contingencies of R490 million (2017: R701 million).

How the matter was addressed in the audit

Our audit procedures were focused on a selection of contracts using a variety of quantitative and qualitative factors in selecting which contracts to test. The most significant factors included high value contracts, significant loss making contracts and contracts with significant claims. In this way our audit was focused on assessing and challenging the most significant and more complex contract positions. For each of the contracts selected we performed the following procedures:

- Discussed and assessed the status of selected contracts with management, finance, and technical staff.
- We also performed specific procedures to determine that:
  - the expected revenue used in the percentage of completion calculation has been reconciled to signed contracts and variation orders; and
  - the appropriate cost categories have been included in work in progress and that variation orders and claims have been properly taken into account when determining the valuation of work in progress; and the resulting estimated cumulative result on contracts.
- With respect to revenue recognised for variation orders and claims raised against customers:
  - We inspected supporting documents in order to confirm that such revenue was recognised only once it could be reliably measured and considered to be at an advanced stage of negotiation.
  - Where applicable, we also inspected correspondence with customers concerning variation orders and claims and obtained third-party assessments from legal counsel contracted by the Group in order to assess whether the information was consistent with the estimates made by management.
- Engaged our own internal engineer to conduct site visits on certain key contracts and to assist in challenging management's assumptions relating to the expected costs to complete. The engineer would also consider supporting documentation such as customer certifications, forecast models and comparing previous cost estimates against actual results and examining variation and claim agreements.
- Inspected the contracts for key clauses, identifying relevant contractual mechanisms such as liquidated damages and success fees and considered their impact on the completeness and existence of the amounts recognised in the financial statements.
- We tested the sensitivity of all inputs and estimates by primarily comparing these to industry benchmarks and peer group analysis.

Refer to pages 23 to 35 (accounting policy), pages 36 to 38 (significant accounting judgements and estimates) and page 63 (note 16: Amounts due from / (to) contract customers).

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

	Assessment of key audit matter	How the matter was addressed in the audit
3	**Recognition and recoverability of uncertified claims and variations** Included in the Group's receivable balance due from contract customers of R3 310 million (2017: R4 468 million) is R942 million (2017: R908 million) which comprises revenue not yet certified, amounts due from customers, and amounts that are currently subject to protracted legal or arbitration proceedings. Since the ultimate outcome of asserted claims and proceedings cannot be predicted with certainty, an adverse outcome could have a material adverse effect on the financial position and results of the Group, including debt covenant compliance; resulting in the identification of a significant financial statement risk. The accounting for these claims and proceedings is complex and highly judgemental, and the amounts involved are material to the financial statements as a whole. The status of the various outstanding claims and projected performance was assessed in the context of current performance of the business, the current business environment and expected market conditions. The decision as to whether the long-outstanding uncertified revenue amounts are recoverable required management judgement due to the complex nature of the claims. The facts and circumstances surrounding the long-outstanding uncertified revenue amounts changes every year as a result of new information from clients, settlement discussions and the outcome of legal proceedings. As a result, the recognition and recoverability of uncertified claims and variations is considered to be an ongoing key audit matter. The following judgments and considerations were made by management in determining whether the current year (which is consistent with the prior year) uncertified claims and variations are reasonable: ▸ The current stage of negotiation and / or legal proceedings on the larger uncertified claims including consideration of the external legal advice on these claims. ▸ The increasing complexity of the claims and the associated commercial challenges as well as the costly process in bringing long-outstanding claims to commercial conclusion. ▸ The increasing limitations the process has placed on management's ability to balance the value of commercial settlements with the associated costs, business disruptions, client relationships and impact on the Group's reputation. Specific auditor attention was required to assess whether the judgements and considerations made by management, which are listed above, were appropriately and consistently applied.	In response to these risks, our audit procedures included, amongst others: ▸ Enquiries with legal counsel, financial staff and directors in respect of ongoing claims and proceedings. ▸ Challenging the judgements on the expected settlement and corroborated explanations through inspection of correspondence, claims lodged against customers and evaluating the historic success rate in estimating the outcome of claims. ▸ Meeting with external legal counsel and internal commercial advisors and assessing their estimates of likely outcomes to that recognised in the accounting records of the Group by the financial accountants. Furthermore we obtained confirmations from external legal counsel opining on the probable outcome of the claims and their best estimates of the quantum of the claims. ▸ Inspecting the minutes of relevant Board meetings. ▸ Evaluating the adequacy of the financial statement disclosures regarding these claims and legal proceedings. ▸ Assessing the assumptions used by management in determining which long-outstanding claims will be written off to ensure that a consistent approach was adopted and that the revised project positions are reasonable and fairly stated. *Refer to pages 23 to 35 (accounting policy), pages 36 to 38 (significant accounting judgements and estimates) and page 63 (note 16: Amounts due from / (to) contract customers).*

	Assessment of key audit matter	How the matter was addressed in the audit
4	**Recognition of deferred tax assets** The Group has recognised deferred tax assets of R807 million (2017: R1 401 million) arising from past tax losses that will be realised in the future. Capitalised tax losses of R509 million have been impaired in the current year. In addition a deferred tax asset has not been recognised in relation to further tax losses amounting to R9 724 million (2017: R8 252 million) due to the uncertainty of future taxable profits. The recoverability of the deferred tax asset is linked to the ongoing profit from operations. With the non-core assets / businesses Held for Sale in the current year, this has resulted in a relook at the model to determine whether the amount is recoverable. This resulted in a significant adjustment to the balance in the current financial year. The recoverability of assets recognised could vary significantly if different assumptions are applied in estimating future taxable profits and the ability to utilise the capitalised tax losses. As a result, it is considered to be a key audit matter. The assumptions of most significance to this assessment are related to the taxable income expected to be generated based on a five-year forecast which includes certain restructuring and corporate actions, which will generate additional taxable income.	Our audit procedures included: ▶ Evaluating and challenging the assessments performed by management with regard to future taxable income, and the realisation of the deferred taxation, by comparing their assessment to evidence obtained, such as approved cash flow forecasts, corporate actions and business plans. ▶ Performing sensitivity analyses around the key assumptions used including growth projections / estimates in respect of margins. ▶ Reviewing management's taxation planning strategies and understanding specific local taxation issues. ▶ We engaged our own internal tax professionals in the assessments of the deferred tax asset to support the execution of these audit procedures. ▶ We considered whether the Group's disclosures met the requirements of International Financial Reporting Standards with specific reference to the Group's ability to generate sufficient taxable profit against which the unused tax losses can be utilised. *Refer to pages 23 to 35 (accounting policy), pages 36 to 38 (significant accounting judgements and estimates) and page 61 (note 14: Deferred taxation).*
5	**Impairment of non-financial assets** Goodwill amounting to R100 million (2017: R342 million), Intangible Assets amounting to R47 million (2017: R271 million) and property plant and equipment amounting to R3 010 million (2017: R4 611 million), collectively R3 157 million as at 30 June 2018 (2017: R5 224 million), represents 21% of the Group's total assets on the statement of financial position. During the current year the Group recorded an impairment on derecognition of Goodwill, Property, plant and equipment and Intangible Assets of R1 298 million as a result of classifying non-core assets and businesses as Held for Sale.	In addition to the work done on the cash flows as noted in the KAM on the recognition of deferred tax assets, our audit procedures included: ▶ Identifying the Cash-Generating Unit (CGU) determination in terms of International Financial Reporting Standards. ▶ Obtaining the discounted cash flow models underlying the recoverable amount of the CGUs as prepared by management and tested the accuracy of the models. ▶ Agreeing the basis of computation of the cash flow models to the strategic plan as approved by the Board. ▶ Holding discussions with management to gain an understanding of the basis for assumptions applied to discounted cash flow models. ▶ Agreeing the base revenue to the forecast revenue still to be earned for ongoing contracts.

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

	Assessment of key audit matter	How the matter was addressed in the audit
5	**Impairment of non-financial assets** (continued) The recoverable amount of a group of assets, or cash-generating unit (CGU), is to be measured whenever there is an indication that the value of the group of assets or the CGU may be impaired. Significant judgement is required by the directors in assessing the impairment of the group of assets or the CGUs, which is determined with reference to fair value less cost to sell or the value-in-use, based on the cash flow forecast for each CGU. Impairment indicators were identified as a result of the continuing losses and worse than expected financial performance. The key assumptions with the most significant impact on the cash flow forecast were: ▶ Revenue growth (including market share and forecast sales volumes) ▶ The discount rate, which is based on the weighted average cost of capital. The determination of the weighted average cost of capital is highly complex ▶ Exchange rate forecasts ▶ Projected sales and input cost prices, as both are linked to commodity prices which are volatile. The directors identified Trident Steel, Aveng Manufacturing (Infraset, Duraset, DFC, ACS and Rail), Aveng Grinaker-LTA (Civil Engineering, Buildings, Buildings Coastal, M&E, Rand Roads, GEL and Water) as the CGUs which required an impairment assessment prior to being classified as Held for Sale. In addition to the impairment assessment for non-current assets Held for Sale, there were impairments of other individual assets in the current financial year where indicators of impairment were present. Management's impairment tests are significant to our audit because the assessment process is complex and requires significant management judgement and includes significant estimates. Management used assumptions in respect of future market and economic conditions such as the economic growth and expected inflation rates as well as estimates related to the discount rate applied and the projected contract and revenue margins that will be achieved.	▶ Comparing the budgeted gross margins and growth rates to gross margins realised on recent contracts, budgeted margins on secured work, as well as the margins and growth rates achieved by other companies in the construction sector. ▶ Assessing and testing the assumptions and methodologies applied, including the weighted average cost of capital (WACC) and other data used by the Group, for example by comparing them to external data, such as expected inflation rates and external market growth expectations. We paid specific attention to forecasts used with respect to future revenues and margins and levels of working capital. ▶ Engaging, as part of our team, a valuation professional to assist us with our assessment of the reasonability of the WACC, expected inflation rates, growth rates and the appropriateness of the models used as well as analysing the future projected cash flows used in the models to determine whether they are reasonable and supportable given the current macro-economic climate and expected future performance of the applicable CGUs, against external market data, historical performance and forecast and recalculating the fair value less costs to sell of all CGUs. ▶ Analysing sensitivities such as the impact on the headroom if the growth rate would be decreased, or the WACC would be increased. We specifically focused on the sensitivity in the available headroom for the cash-generating units, evaluating whether a reasonably possible change in assumptions could cause the carrying amount to exceed its recoverable amount. ▶ Testing the inputs into the cash flow forecast, including the assumptions relating to revenue growth and margins, against historical performance and in comparison to the director's strategic plans in respect of the applicable CGUs. ▶ Assessing the inputs in the discounted cash flow calculations by comparing inputs with internally and externally derived data such as the Group's budgets and forecasts and information for similar companies operating within the industry. ▶ Considering the directors' ability to accurately forecast, based on a comparison of historical actual performance against previous respective forecasts. ▶ Evaluating the adequacy of the financial statement disclosures regarding the assumptions applied and the impairments recognised. We assessed the long-term forecast volumes and margins to be mildly optimistic based on past performance. As a result, based on our audit procedures, adjustments were made to mitigate the above risks identified in the forecast cash flows. The discount rate and other assumptions were within an independently determined acceptable range. *Refer to pages 23 to 35 (accounting policy), pages 36 to 38 (significant accounting judgements and estimates), page 52 (note 8: Impairments), page 55 (note 9: Property, plant and equipment) and page 56 (note 10: Goodwill arising on consolidation).*

Assessment of key audit matter	How the matter was addressed in the audit
6 Valuation of disposal groups Held for Sale The Aveng Group announced the results of their strategic review and future plan to the market in February 2018. As part of the strategic plan, a number of non-core assets are to be disposed of over the next 12 months. The non-core assets have been classified as Held for Sale in accordance with *IFRS 5* as at 30 June 2018. The non-core assets include: ▶ Aveng Trident Steel ▶ Aveng Grinaker-LTA ▶ Aveng Manufacturing ▶ Aveng Capital Partners (ACP) These non-core assets consist of 13 cash-generating units / disposal groups. The disposal groups have been written down to the lower of carrying amount and fair value less costs to sell based on the discounted future cash flow forecasts and costs associated with the disposal. Aveng management together with an external valuator prepared valuations for each of the disposal group's identified to determine the fair value less costs to sell. Due to the high level of judgement involved in estimating the fair value less cost to sell of the disposal groups and the significant carrying amount of the assets and liabilities associated with these disposal groups, we considered this to be a key audit matter.	In addition to the work done on the cash flows as noted in the KAM on the recognition of deferred tax assets and impairment of non-financial assets KAM, our audit procedures included: ▶ Challenging the Group's judgement on the classification of the disposal group as Held for Sale through understanding the status of the sales process and reviewing correspondence from purchasers and prospective purchasers. ▶ Inspecting the resolution by the Board of directors to dispose of the non-core assets. ▶ Challenging the Group's assumptions used as the bases for allocating the assets and liabilities between continuing and discontinuing operations and reconciling them to the underlying accounting records. ▶ Evaluating the adequacy of the financial statements disclosures, including disclosures of key assumptions, judgements and sensitivities. *Refer to pages 23 to 35 (accounting policy), pages 36 to 38 (significant accounting judgements and estimates) and page 65 (note 20: Assets and liabilities Held for Sale).*

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

Other information

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

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

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

Responsibilities of the directors for the Consolidated and Separate financial statements

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

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

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

Auditor's responsibilities for the audit of the Consolidated and Separate financial statements

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

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

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

- Evaluate the overall presentation, structure and content of the Consolidated and Separate financial statements, including the disclosures, and whether the Consolidated and Separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated and Separate financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in the Government Gazette Number 39475 dated 4 December 2015, we report that Ernst & Young Inc. has been the auditor of Aveng Limited for 31 years.

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

Ernst & Young Inc.

Ernst & Young Inc.
Director: Allister Jon Carshagen

Chartered Accountant (SA)
Registered auditor

102 Rivonia Road
Sandton

25 September 2018

Statement of financial position

as at 30 June 2018

	Notes	2018 Rm	2017 Rm
ASSETS			
Non-current assets			
Goodwill arising on consolidation	10	**100**	342
Intangible assets	11	**47**	271
Property, plant and equipment	9	**3 010**	4 611
Equity-accounted investments	12	**73**	334
Infrastructure investments	13	**142**	265
Deferred taxation	14	**747**	1 290
Amounts due from contract customers	16	**661**	756
		4 780	7 869
Current assets			
Inventories	18	**255**	2 085
Derivative instruments	15	**3**	2
Amounts due from contract customers	16	**2 649**	3 712
Trade and other receivables	17	**180**	1 840
Taxation receivable	40	**39**	61
Cash and bank balances	19	**2 391**	1 996
		5 517	9 696
Assets Held for Sale	20	**4 773**	122
TOTAL ASSETS		**15 070**	17 687
EQUITY AND LIABILITIES			
Equity			
Share capital and share premium	21	**2 009**	2 009
Other reserves		**1 118**	1 060
Retained earnings		**(542)**	2 981
Equity attributable to equity-holders of parent		**2 585**	6 050
Non-controlling interest		**9**	8
TOTAL EQUITY		**2 594**	6 058
Liabilities			
Non-current liabilities			
Deferred taxation	14	**49**	319
Borrowings and other liabilities	22	**2 688**	1 945
Payables other than contract-related	23	**125**	133
Employee-related payables	25	**248**	312
		3 110	2 709
Current liabilities			
Amounts due to contract customers	16	**1 140**	1 351
Borrowings and other liabilities	22	**599**	1 121
Payables other than contract-related	23	**21**	21
Employee-related payables	25	**253**	501
Derivative instruments	15	**–**	17
Trade and other payables	24	**2 958**	5 909
Bank overdrafts	19	**315**	–
		5 286	8 920
Liabilities Held for Sale	20	**4 080**	–
TOTAL LIABILITIES		**12 476**	11 629
TOTAL EQUITY AND LIABILITIES		**15 070**	17 687

Statement of comprehensive earnings

for the year ended 30 June 2018

	Notes	2018 Rm	2017 Rm
Revenue	29	**30 580**	23 456
Cost of sales	30	**(28 782)**	(26 591)
Gross earnings / (loss)		**1 798**	(3 135)
Other earnings	31	**106**	206
Operating expenses	32	**(2 292)**	(2 305)
(Loss) / earnings from equity-accounted investments	12	**(13)**	4
Operating loss		**(401)**	(5 230)
South African government settlement	23	**–**	(165)
Net operating loss		**(401)**	(5 395)
Impairment loss on goodwill, intangible assets and property, plant and equipment	8	**(1 298)**	(278)
Impairment loss on equity-accounted investments	12	**(195)**	–
Fair value adjustment on properties and disposal groups classified as Held for Sale	20	**(807)**	–
Profit on sale of property, plant and equipment		**47**	4
Loss before financing transactions		**(2 654)**	(5 669)
Interest received on bank balances		**246**	198
Interest on convertible bonds	22	**(251)**	(237)
Other finance expenses	33	**(434)**	(405)
Loss before taxation		**(3 093)**	(6 113)
Taxation	34	**(426)**	(626)
Loss for the period		**(3 519)**	(6 739)
Loss from continuing operations		**(1 050)**	(6 238)
Loss from discontinued operations	6	**(2 469)**	(501)
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		**48**	(773)
Other comprehensive earnings / (loss) for the period, net of taxation		**48**	(773)
Total comprehensive loss for the period		**(3 471)**	(7 512)
Total comprehensive loss from continuing operations		**(1 002)**	(7 011)
Total comprehensive loss from discontinued operations	6	**(2 469)**	(501)
Total comprehensive loss for the period attributable to:			
Equity-holders of the parent		**(3 473)**	(7 481)
Non-controlling interest		**2**	(31)
		(3 471)	(7 512)
Loss for the period attributable to:			
Equity-holders of the parent		**(3 523)**	(6 708)
Non-controlling interest		**4**	(31)
		(3 519)	(6 739)
Other comprehensive earnings for the period, net of taxation			
Equity-holders of the parent		**50**	(773)
Non-controlling interest		**(2)**	–
		48	(773)
Results per share (cents)			
From continuing and discontinued operations			
Loss – basic	35	**(653,9)**	(1 245,1)
Loss – diluted	35	**(642,9)**	(1 233,1)
From continuing operations			
Loss – basic	35	**(195,6)**	(1 152,1)
Loss – diluted	35	**(192,4)**	(1 141,0)
From discontinued operations			
Loss – basic	35 / 6	**(458,3)**	(93,0)
Loss – diluted	35 / 6	**(450,6)**	(92,1)
Number of shares (millions)			
In issue	35	**416,7**	416,7
Weighted average	35	**538,8**	538,8
Diluted weighted average	35	**548,0**	544,0

EBITDA for the Group, being net operating earnings before interest, tax, depreciation and amortisation is R293 million (June 2017: R(4 740) million).

Statement of changes in equity

for the year ended 30 June 2018

	Share capital Rm	Share premium Rm	Total share capital and premium Rm
Balance at 1 July 2016	20	1 989	2 009
Loss for the period	–	–	–
Other comprehensive loss for the period (net of taxation)	–	–	–
Total comprehensive loss for the period	–	–	–
Equity-settled share-based payment charge	–	–	–
Decrease in equity investment	–	–	–
Dividends paid	–	–	–
Total contributions and distributions recognised	–	–	–
Balance at 1 July 2017	**20**	**1 989**	**2 009**
Loss for the period	**–**	**–**	**–**
Other comprehensive earnings for the period (net of taxation)	**–**	**–**	**–**
Total comprehensive loss for the period	**–**	**–**	**–**
Equity-settled share-based payment charge	**–**	**–**	**–**
Dividends paid	**–**	**–**	**–**
Total contribution and distributions recognised	**–**	**–**	**–**
Balance at 30 June 2018	**20**	**1 989**	**2 009**
Note	21	21	21

Foreign currency translation reserve Rm	Equity-settled share-based payment reserve Rm	Convertible bond equity reserve Rm	**Total other reserves Rm**	Retained earnings Rm	**Total attributable to equity-holders of the parent Rm**	Non-controlling interest Rm	**Total equity Rm**
1 534	19	268	1 821	9 689	13 519	37	13 556
–	–	–	–	(6 708)	(6 708)	(31)	(6 739)
(773)	–	–	(773)	–	(773)	–	(773)
(773)	–	–	(773)	(6 708)	(7 481)	(31)	(7 512)
–	12	–	12	–	12	–	12
–	–	–	–	–	–	5	5
–	–	–	–	–	–	(3)	(3)
–	12	–	12	–	12	2	14
761	**31**	**268**	**1 060**	**2 981**	**6 050**	**8**	**6 058**
–	**–**	**–**	**–**	**(3 523)**	**(3 523)**	**4**	**(3 519)**
50	**–**	**–**	**50**	**–**	**50**	**(2)**	**48**
50	**–**	**–**	**50**	**(3 523)**	**(3 473)**	**2**	**(3 471)**
–	**8**	**–**	**8**	**–**	**8**	**–**	**8**
–	**–**	**–**	**–**	**–**	**–**	**(1)**	**(1)**
–	**8**	**–**	**8**	**–**	**8**	**(1)**	**7**
811	**39**	**268**	**1 118**	**(542)**	**2 585**	**9**	**2 594**

Statement of cash flows

for the year ended 30 June 2018

	Notes	2018 Rm	2017 Rm
Operating activities			
Cash utilised from operations	36	**(2 648)**	(5 681)
Non-cash and other movements	37	**2 177**	4 490
Cash utilised from operations after non-cash movements		**(471)**	(1 191)
Depreciation	9	**666**	627
Amortisation	11	**28**	28
Cash generated / (utilised) by operations		**223**	(536)
Changes in working capital:			
Decrease in inventories		**1 847**	163
Decrease in amounts due from contract customers		**1 158**	27
Decrease in trade and other receivables		**1 660**	198
(Decrease) / increase in amounts due to contract customers		**(211)**	29
(Decrease) / increase in trade and other payables		**(2 959)**	28
(Decrease) / increase in derivative instruments		**(18)**	8
(Decrease) / increase in payables other than contract-related		**(21)**	144
Decrease in employee-related payables		**(340)**	(79)
Increase in net assets and liabilities classified as Held for Sale		**(526)**	(106)
Total changes in working capital		**590**	412
Cash generated / (utilised) by operating activities		**813**	(124)
Finance expenses paid	38	**(532)**	(531)
Finance earnings received	39	**244**	215
Taxation paid	40	**(95)**	(182)
Cash inflow / (outflow) from operating activities		**430**	(622)
Investing activities			
Acquisition of property, plant and equipment – expansion	9	**(138)**	(135)
Acquisition of property, plant and equipment – replacement	9	**(625)**	(793)
Proceeds on disposal of property, plant and equipment		**291**	315
Proceeds on disposal of other assets		**–**	104
Proceeds on disposal of ACP assets		**–**	821
Net proceeds on disposal of Steeledale assets		**–**	50
Acquisition of intangible assets – replacement	11	**(23)**	(27)
Capital expenditure net of proceeds on disposal		**(495)**	335
Loans repaid by / (advanced to) equity-accounted investments (net of dividends received)		**18**	(27)
Increase in equity-accounted investments		**–**	(11)
Net loans repaid by infrastructure investment companies		**6**	9
Dividend received		**7**	8
Cash (outflow) / inflow from investing activities		**(464)**	314
Operating free cash outflow		**(34)**	(308)
Loans advanced by non-controlling interest		**–**	5
Dividends paid		**(1)**	(3)
Net proceeds from / (repayment of) borrowings	42	**134**	(25)
Cash inflow / (outflow) from financing activities		**133**	(23)
Net increase / (decrease) in cash and bank balances before foreign exchange movements		**99**	(331)
Foreign exchange movements on cash and bank balances		**(19)**	(123)
Cash and bank balances at the beginning of the period		**1 996**	2 450
Total cash and bank balances at the end of the period	19	**2 076**	1 996
Borrowings excluding bank overdrafts		**3 287**	3 066
Net debt position		**(1 211)**	(1 070)

Accounting policies

for the year ended 30 June 2018

1. PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

Basis of preparation

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

The consolidated financial statements are presented in South African Rand (ZAR) and all values are rounded to the nearest million (Rm) except when otherwise indicated. The accounting policies adopted are consistent with those of the previous year as well as the Group's interim results as at 31 December 2017 except for the new standards and interpretations disclosed in *note 4: Standards and interpretations effective and not yet effective*.

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

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

Statement of compliance

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

2. ACCOUNTING POLICIES

2.1 Basis of consolidation

Business combination and goodwill

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

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

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

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

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

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

Common control

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

Accounting policies continued

for the year ended 30 June 2018

2. ACCOUNTING POLICIES continued

2.1 Basis of consolidation continued

Subsidiaries

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

Non-controlling interests (NCI)

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

The Group does not have subsidiaries that have a significant non-controlling interest and accordingly detailed non-controlling interests disclosure is not required in terms of *IFRS 12 Disclosure of Interests in Other Entities* in the current year.

Loss of control

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

Equity-accounted investments

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

Associates

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

Joint arrangements

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

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

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

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

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

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

Transactions eliminated on consolidation

When the end of the reporting period of a subsidiary, associate or joint venture is different to that of the Group, the subsidiary, associate or joint venture prepares financial statements as at 30 June 2018 for consolidation purposes. When it is impractical for the subsidiary, associate or joint arrangement to prepare additional financial statements as at 30 June 2018, adjustments are made for the effects of significant transactions that occur between the subsidiary, associate or joint arrangement and the Group's reporting date.

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

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

2. ACCOUNTING POLICIES continued

2.2 Foreign currency transactions and balances

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

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

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

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

Foreign operations

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

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

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

2.3 Segmental information

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

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

The Group financing (including finance earnings) and income taxes are allocated to operating segments (refer to *note 7: Segmental information*).

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

2.4 Property, plant and equipment

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

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

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

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

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

Accounting policies continued

for the year ended 30 June 2018

2. ACCOUNTING POLICIES continued

2.4 Property, plant and equipment continued

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

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

Item	Depreciation % / period
Buildings	2%
Leased plant, equipment and vehicles	Shorter of lease period and asset's useful life
Owned plant, equipment and vehicles	5% to 33%

2.5 Intangible assets

Recognition and measurement

Subsequent to initial recognition at cost, computer software, brand names, know-how and customer lists are measured at cost less accumulated amortisation and accumulated impairment losses.

Intangible asset	
Trademarks and brand names	Trademarks and brand names with indefinite useful lives are not amortised. Internally developed trademark expenses are written off as and when incurred.
Computer software	Internally developed computer software expenses are only capitalised when such costs are clearly associated with the development and production of identifiable and unique software products controlled by the Group, and will probably generate economic benefits exceeding one year.
Know-how and customer lists	Know-how and customer lists were acquired through business combinations.

Amortisation

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

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

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

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

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

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

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

2. ACCOUNTING POLICIES continued

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

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

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

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

2.7 Inventories

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

Write-downs to net realisable value and inventory losses are expensed in the period in which the write-downs or losses occur.

2.8 Share capital and share premium

Treasury shares

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

2.9 Share-based payments

The Group operates a share incentive plan for the granting of shares and / or share options to executives and senior employees as consideration for services rendered. Shares and / or share options are offered to executives and senior employees at the market price, upon recommendation by the remuneration committee. Shares and / or share options awarded to executives and senior employees are awarded over a period of three to four years.

Equity-settled transactions

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

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

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

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

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

Accounting policies continued

for the year ended 30 June 2018

2. ACCOUNTING POLICIES continued

2.9 Share-based payments continued

Cash-settled transactions

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

Subsidiaries

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

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

2.10 Provisions

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

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

2.11 Employee benefits

Short-term employee benefits

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

Post-retirement benefits

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

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

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

Defined contribution plan

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

Defined benefit plans

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

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

Other long-term employee benefits

Other long-term employee benefits include items such as the Group's long-term disability benefits as well as the portion of the Group's leave pay benefits not expected to be settled wholly within 12 months after the annual reporting period in which the employees render the related service.

2. ACCOUNTING POLICIES continued

2.11 Employee benefits continued

Termination benefits

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

2.12 Revenue

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

Construction contracts

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

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

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

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

Claims

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

Variations

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

Incentive payments

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

Combining and segmenting construction contracts

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

Assets covered by a single contract are treated separately when:

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

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

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

Accounting policies continued

for the year ended 30 June 2018

2. ACCOUNTING POLICIES continued

2.12 Revenue continued

Construction contracts continued

Sale of goods

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

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

Rendering of services

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

Transport revenue

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

2.13 Interest earnings

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

2.14 Other earnings

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

2.15 Fair value of assets and liabilities

Financial and non-financial assets

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

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

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

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

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

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

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

2.16 Financial instruments (based on early adoption of the classification model *IFRS 9 (2010)*)

2.16.1 Financial assets

Initial recognition and measurement

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

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

2. ACCOUNTING POLICIES continued

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

2.16.1 Financial assets continued

Initial recognition and measurement continued

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

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

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

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

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

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

The Group's financial assets are classified and measured as follows:

Financial investments / infrastructure investments

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

Trade and other receivables

Trade and other receivables are subsequently measured at amortised cost.

Amounts due from contract customers

Amounts due from contract customers are carried at cost plus margin recognised, less billings and recognised losses at the reporting date in accordance with the revenue recognition policy in section 2.12.

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

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

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

Cash and bank balances

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

Impairment of financial assets

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

Financial assets not carried at fair value through profit or loss, including an interest in an equity-accounted investee are assessed at each reporting date to determine whether there is objective evidence of impairment. Accordingly, this accounting policy relates to *note 16: Amounts due from contract customers, note 17: Trade and other receivables* and *note 19: Cash and bank balances.*

Accounting policies continued

for the year ended 30 June 2018

2. ACCOUNTING POLICIES continued

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

2.16.1 Financial assets continued

Impairment of financial assets continued

Objective evidence that financial assets are impaired includes:

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

Derecognition

A financial asset is derecognised when:

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

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

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

2.16.2 Financial liabilities

Initial recognition and measurement

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

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

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

Amounts due to contract customers

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

Borrowings and other liabilities

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

Trade and other payables

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

Bank overdraft

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Refer to *note 49: Offsetting financial assets and financial liabilities* for further details regarding the offsetting of financial instruments.

2. ACCOUNTING POLICIES continued

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

2.16.2 Financial liabilities continued

Derecognition

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

2.16.3 Derivative instruments and hedge accounting

Hedges of a net investment

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

The Group uses forward exchange contracts as a hedge of its exposure to foreign exchange risk on inter-company loans that forms part of its net investments in foreign operations. Refer to *note 15: Derivative instruments* for more details.

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

Fair value through profit and loss

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

2.17 Tax

Current taxation

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

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

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

Deferred taxation

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

Deferred taxation is not recognised for:

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

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

Accounting policies continued

for the year ended 30 June 2018

2. ACCOUNTING POLICIES continued

2.17 Tax continued

Deferred taxation *continued*

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

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

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

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

Withholding tax

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

Other taxes

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

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

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

2.18 Leases

Group as a lessee

Determining whether an arrangement contains a lease

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

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

Leased assets

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

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

Lease payments

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

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

2. ACCOUNTING POLICIES continued

2.18 Leases continued

Sale and leaseback

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

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

Group as a lessor

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

2.19 Borrowing costs

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

2.20 Contingent liabilities

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

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

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

2.21 Non-current assets Held for Sale and discontinued operations

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

Loans (from) / to Group companies that have been classified as Held for Sale are eliminated on consolidation.

Non-current assets (and disposal groups) classified as Held for Sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

2.22 Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- Represents a separate major line of business or geographic area of operations;
- Is part of a single coordinated plan to dispose of a separate line of business of geographic area of operations; and
- Is a subsidiary acquired solely with a view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be Held for Sale.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and Other Comprehensive Income (OCI) is presented as if the operation had been discontinued from the beginning of the comparative period.

2.23 Investments in subsidiaries

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

Accounting policies continued

for the year ended 30 June 2018

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

3.1 Judgements and estimation assumptions

In the process of applying the Group's accounting policies, the Group has made the judgements relating to certain items recognised, which have the most significant effect on the amounts recognised in the consolidated financial statements. The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

3.1.1 Useful lives of property, plant and equipment

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

Refer to *note 9: Property, plant and equipment* for further detail.

3.1.2 Intangible assets

The Group reviews the estimated useful lives, residual values and amortisation methods of intangible assets at the end of each reporting period.

Refer to *note 11: Intangible assets* for further detail.

3.1.3 Equity-accounted investments

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

Refer to *note 12: Equity-accounted investments* for further detail.

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

3.1.4 Deferred taxation

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

Refer to *note 14: Deferred taxation* for further detail.

3.1.5 Amounts due from / (to) contract customers

The Group estimates the risk associated with the amounts due from contract customers in order to classify these assets according to their maturity profile. Positions related to long outstanding contract position have been judged in conjunction with legal advice and potential timeframes associated with legal action.

Refer to *note 16: Amounts due from / (to) contract customers* for further detail.

3.1.6 Trade and other receivables and contract receivables

Allowance for doubtful debts

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

Refer to *note 17: Trade and other receivables* for further detail.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES continued

3.1 Judgements and estimation assumptions continued

3.1.7 Inventory

Allowance for obsolete inventory

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

Refer to *note 18: Inventories* for further detail.

3.1.8 Share-based payments

Equity-settled

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

Cash-settled

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

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

The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in *note 27: Share-based payments*.

3.1.9 Fair value of assets and liabilities

Financial assets and non-financial assets

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

Refer to *note 48: Fair value of assets and liabilities* for the detailed assumptions applied.

Financial liabilities

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

Refer to *note 22.3: Convertible bonds* for further details.

3.1.10 Impairment of goodwill arising on consolidation

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

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

The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model, the expected future cash inflows and the growth rates used for extrapolation and terminal value purposes. The key assumptions used to determine the recoverable amount for the different CGUs, including sensitivities, are disclosed and further explained in *note 8.2: Impairment of goodwill arising on consolidation*.

Accounting policies continued

for the year ended 30 June 2018

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES continued

3.1 Judgements and estimation assumptions continued

3.1.11 Revenue recognition

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

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

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

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

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

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

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

3.1.12 Leases and sale and leaseback transactions

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

3.1.13 Contingent liabilities

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

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

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

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

3.1.14 Loss making and onerous contracts

In determining whether a contract is loss making or onerous, management applies its professional judgement to assess the facts and circumstances specific to the relevant contract. The assessments are performed on a contract-by-contract basis. The following factors are taken into account: future estimated revenues (including claims and variations, as disclosed in *note 2.12: Revenue*); the stage of completion of the contract; the nature and relationship with the customer; expected inflation; the terms of the contract and the Group's experience in that industry.

4. STANDARDS AND INTERPRETATIONS EFFECTIVE AND NOT YET EFFECTIVE

The following accounting standard is applicable and has an impact on the Group for the current financial year.

Standards and interpretations	Description	Effective date periods beginning on or after
IAS 7 (amendment)	Disclosure initiative ▸ The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from cash flows and non-cash changes. ▸ Aveng applied this amendment for the first time in this financial year ending 30 June 2018 – refer to *note 42: Changes in liabilities arising from financing activities* for additional cash flow disclosure as required by the IAS 7 amendment.	1 January 2017

The Group has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the Group's accounting periods beginning on or after 1 July 2018. All other standards and interpretations that are not disclosed have been assessed and are not applicable to the Group.

Accounting policies continued

for the year ended 30 June 2018

4. STANDARDS AND INTERPRETATIONS EFFECTIVE AND NOT YET EFFECTIVE continued

<table>
<tr><th>Standards and interpretations</th><th>Description</th><th>Effective date periods beginning on or after</th></tr>
<tr><td>IFRS 9 Financial Instruments</td><td>On 24 July 2014, the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

Impairment of financial assets
IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortised cost.

The change from an incurred loss model to an ECL model when assessing the impairment of contracts in progress, certified contract receivables and trade receivables is not expected to have a significant impact on the Group under the new standard. Based on the nature of the customer base and the low level of historic credit losses, bad debts are not considered a major expense to the Group.

The incurred loss model, currently is calculated on a client-by-client basis and only if a loss was expected for a specific client, a provision is raised. This will need to be adjusted to the ECL model, where expected future losses are included in the calculation and applied across the various portfolios of the trade receivables book and are to be applied to all customers.

The consolidated financial statement disclosures will be updated in the year of adoption to ensure compliance with IFRS 7 and IFRS 9 requirements including the implications of adoption of the various transition options.

Based on the outcomes of the detailed assessments, referred to above, the Group will determine which transition option to apply.

The Group is still in the process of determining the equity adjustment that may be required to account for the expected credit loss on its contracts in progress, certified contract receivables and trade receivables.</td><td>1 January 2018</td></tr>
<tr><td>IFRS 2 Share-based Payments</td><td>The amendments address the following:
▶ The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction
▶ The classification of a share-based payment transaction with net settlement features for withholding tax obligations
▶ The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

The Group is still assessing the impact of the changes in the accounting standard.</td><td>1 January 2018</td></tr>
</table>

4. STANDARDS AND INTERPRETATIONS EFFECTIVE AND NOT YET EFFECTIVE continued

Standards and interpretations	Description	Effective date periods beginning on or after
IFRS 15 Revenue from Contracts with Customers	*IFRS 15* establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including *IAS 18 Revenue, IAS 11 Construction Contracts* and *IFRIC 13 Customer Loyalty Programmes.* The application of the standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: over time or at a point in time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. Management has performed an assessment of the impact of the standard on its consolidated financial statements. Management continues with a detailed assessment to determine the extent of identified impacts. Based on the high-level assessment the application of this standard may include a possible change in the accounting for the following transactions: ▶ Variable consideration originating from variation claims, settlement discounts and target bonuses for example will require a formal assessment to determine the application of variable consideration and possibly applying the constraint should be performed in order for management to recognise revenue at the consideration it expects to receive. ▶ Exported goods will require a formal assessment of the point of transfer of control are to be performed in order to determine the appropriate timing of revenue recognition and initial measurement amount. An assessment outcome indicating a differing timing of control transfer from current practice will impact accounting practice as well as required disclosure. ▶ The production of specialised assets will require a formal assessment of the application of an over-time model versus a point in time revenue in order to confirm the current versus future revenue recognition process. The impact cannot be reliably quantified at this stage. The consolidated financial statement disclosures will be updated in the year of adoption to ensure compliance with *IFRS 15* requirements including the implications of adoption of the various transition options. Based on the outcomes of the detailed assessments, referred to above, the Group will determine which transition option to apply.	1 January 2018

Accounting policies continued

for the year ended 30 June 2018

4. STANDARDS AND INTERPRETATIONS EFFECTIVE AND NOT YET EFFECTIVE continued

Standards and interpretations	Description	Effective date periods beginning on or after
IFRS 16 Leases	*IFRS 16 Leases* replaces existing leases guidance, including *IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply *IFRS 15* at or before the date of initial application of *IFRS 16*. *IFRS 16* introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. The Group leases multiple assets such as buildings and motor vehicles for example as well as certain low value assets and short-term leases and currently accounts for these as operating leases and also leases multiple assets such as mining equipment for example and currently accounts for these as finance leases. Management has performed a high-level assessment of the impact of the standard on its consolidated financial statements. Management continues with detailed assessment to determine the extent of these potential changes. On application the current operating lease assets will be capitalised and reflected as lease assets (right-of-use-assets) and lease liabilities on the statement of financial position. The previous straight-lining effect associated with *IAS 17* accounting will be reversed, resulting in further accounting impacts on the consolidated financial statements. On application the existing finance lease assets and liability will be remeasured in line with the requirements of the standard and reclassified and reflected as a lease asset (right-of-use-assets) and lease liabilities on the statement of financial position. The statement of cash flows will be affected as well, with payments needing to be split between repayments of principal and interest. The consolidated financial statement disclosures will be updated in the year of adoption to ensure compliance with *IFRS 16* requirements including the implications of adoption of the various transition options. Based on the outcomes of the detailed assessments, referred to above, the Group will determine which transition option to apply.	1 January 2019

4. STANDARDS AND INTERPRETATIONS EFFECTIVE AND NOT YET EFFECTIVE continued

Standards and interpretations	Description	Effective date periods beginning on or after
IAS 12 Income Taxes	*Annual Improvements 2015 – 2017 cycle* clarifies that the income tax consequences of dividends are linked more directly to the past transactions or events that generated distributable profits than the distributions to owners. Therefore, an entity recognises the income or equity according to where the entity originally recognised those past transactions or events. The Group is still in the process of determining the impact of the changes in the accounting standard.	1 January 2019
IAS 28 Long-term Interests in Associates and Joint Ventures	The amendment clarifies that an entity applies *IFRS 9 Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. The Group is still in the process of determining the impact of the changes in the accounting standard.	1 January 2019
IFRS 3 Business Combinations	*Annual Improvements 2015 – 2017 cycle:* Clarifies that when an entity obtains control of a business that is a joint operation, it is required to remeasure previously held interests in that business. The Group is still in the process of determining the impact of the changes in the accounting standard.	1 January 2019
IFRS 11 Joint Arrangements	*Annual Improvements 2015 – 2017 cycle:* IFRS 11 provides clarity that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business. The Group is still in the process of determining the impact of the change in the accounting standards.	1 January 2019
IAS 28 Investment in Associates	*Annual Improvements 2015 – 2017 cycle:* Clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition. The Group is still in the process of determining the impact of the changes in the accounting standard.	1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transaction for each payment or receipt of advance consideration. The Group is still in the process of determining the impact of the changes in the accounting standard.	1 January 2018

Accounting policies continued

for the year ended 30 June 2018

4. STANDARDS AND INTERPRETATIONS EFFECTIVE AND NOT YET EFFECTIVE continued

Standards and interpretations	Description	Effective date periods beginning on or after
IFRIC 23 *Uncertainty over Income Tax Treatments*	The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects *IAS 12*. The interpretation specifically addresses the following: ▶ Whether an entity considers 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 is still in the process of determining the impact of the changes in the accounting standard.	1 January 2019
IAS 23 *Borrowing costs*	*Annual Improvements 2015 – 2017 cycle:* The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings. The Group is still in the process of determining the impact of the changes in the accounting standard.	1 January 2019
IFRS 9 *Financial Instruments* (amendment)	The amendments clarify that financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9.	1 January 2019

Notes to the consolidated financial statements

for the year ended 30 June 2018

5. GOING CONCERN AND LIQUIDITY

As detailed in *note 1: Presentation of Consolidated Financial Statements* and *note 50: Events after the reporting period and pending transactions* to the financial statements, in determining the appropriate basis of preparation of the financial statements, the Board is required to consider whether the Company can continue in operational existence for the foreseeable future.

Management has prepared a budget and business plan for the 2019 financial year and the following two years, as well as cash flow forecasts covering a minimum of 12 months from the date of these financial statements. These forecasts have been prepared with the assistance of independent external advisers 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 and liquidity forecasts, the Board has considered the following information up to the date of approval of these financial statements:

- Strategy adopted by the Board and announced on 26 February 2018;
- Successful R493 million rights issue concluded on 4 July 2018;
- Early redemption of the R2 billion convertible bond, including the successful raising of a new R460 million debt instrument to facilitate the settlement of R657 million of existing convertible bonds at a 30% discount ahead of the early redemption. The remaining R1,4 billion bonds were settled through the specific issue of ordinary shares at R0,10 per share on 25 September 2018;
- Implementation of a revised Common Terms Agreement with the South African lending banks that includes renewed facilities, additional funding of R400 million and extended funding terms to 2020;
- Updated non-core asset disposal plan, including the announced property disposals of R254 million;
- Updated budget and business plans for the post year end period up to 31 December 2019 for the Group, incorporating the benefits already realised from the strategic action plan such as improved operating performance, greater predictability of performance and working capital enhancements, as well as future benefits to liquidity to be achieved once non-core businesses have been disposed;
- Sensitivity testing of key inputs included in the operating and liquidity budgets to ascertain the effect of non-achievement of one or all of the key inputs (operational performance, non-core asset disposal timing), including any effect on the ongoing compliance with covenant requirements in place with the South African lending banks, Australian banks or other financing agreements; and
- A short-term liquidity forecast management process that has been introduced and embedded in all the South African operations with the help of external consultants.

In the 2018 financial year, the Group reported a loss after tax of R3,5 billion due to R2,3 billion impairments and losses incurred of R1,2 billion. As a result of these losses and continued difficult trading conditions in the wider industry, the Group's available cash resources were negatively impacted. The Group continues to focus on improving operational performance, reducing overhead and improving working capital efficiencies. To this end, a number of Group initiatives have been concluded, implemented or are in progress.

The Group has cash (net of bank overdraft facilities) of R2,1 billion (2017: R2,0 billion) at year end, R568 million (2017: R625 million) of which is held in joint arrangements. Advance payments that will be used in the short term amount to R85 million (2017: R146 million) while short-term debt repayments (excluding finance lease liabilities) are R255 million (2017: R704 million). After working capital requirements of R800 million (2017: R800 million) and unutilised facilities of R536 million (2017: R1,4 billion), the short-term liquidity of the Group is considered to be satisfactory to the Board with liquidity headroom of R904 million. This position is further enhanced after the conclusion of the capital markets transactions detailed in *note 50: Events after the reporting period and pending transactions.*

A revised Common Terms Agreement has been concluded with the South African lending banks. Through this process the Group negotiated renewed facilities, obtained additional funding to improve the liquidity position and extended the funding terms to 2020. The Board believes that the support from the South African lending banks, together with the R493 million capital injection following the rights issue and the early redemption of the convertible bonds that will substantially alleviate the interest burden for the Group will provide adequate financial resources to enable the Group to meet its obligations over the next 12 months and beyond.

The directors have considered all of the above, including detailed consideration of all business plans and forecasts, including all available information, and are therefore of the opinion that the going concern assumption is appropriate in the preparation of the financial statements, and that sufficient liquidity will be available to support the ongoing operations of the Group.

6. DISCONTINUED OPERATIONS

Identification and classification of discontinued operations

During the financial year, 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 findings included the reshaping of the Group's operating structure to a smaller and more focussed group. The newly envisaged Group structure comprises of McConnell Dowell and Aveng Mining forming the core businesses with Aveng Grinaker-LTA, Aveng Manufacturing and Aveng Trident Steel being deemed the non-core operating groups. As at 30 June 2018, management was committed to exit and dispose of the identified non-core operating groups.

Aveng Grinaker-LTA, forming part of the *Construction and Engineering: South Africa and rest of Africa* reportable segment (refer to *note 7: Segmental report*) and Aveng Manufacturing and Aveng Trident Steel, both forming part of the *Manufacturing and Processing* reportable segment (refer to *note 7: Segmental report*), 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 impairment assessment on the underlying assets allocated to the identified cash-generating units – refer to *note 8: Impairments*.

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 20: Assets and liabilities classified as Held for Sale.*

Notes to the consolidated financial statements continued

for the year ended 30 June 2018

6. DISCONTINUED OPERATIONS continued

The loss from discontinued operations is analysed as follows:

	2018 Rm	2017 Rm
Revenue	13 975	13 812
Cost of sales	(13 659)	(13 287)
Gross earnings	316	525
Other earnings	113	168
Operating expenses	(966)	(1 084)
Earnings / (loss) from equity-accounted investments	3	(4)
Operating loss	(534)	(395)
Impairment loss on goodwill, intangible assets and property, plant and equipment	(1 132)	(240)
Impairment loss on equity-accounted investments	(7)	–
Fair value adjustments on properties and disposal groups classified as Held for Sale	(734)	–
Profit on sale of property, plant and equipment	12	3
Loss before financing transactions	(2 395)	(632)
Net finance expenses	(89)	(32)
Loss before taxation	(2 484)	(664)
Taxation	15	163
Loss for the period	(2 469)	(501)
Attributable to:		
Equity-holders of the parent	(2 469)	(501)
Other comprehensive earnings for the period, net of taxation	–	–
Total comprehensive loss for the period	(2 469)	(501)
Items by nature		
Capital expenditure	138	222
Depreciation	(132)	(171)
Amortisation	(8)	(13)
Loss before interest,taxation,depreciation and amortisation (EBITDA)	(394)	(211)
Results per share (cents)		
Loss – basic	(458,3)	(93,0)
Loss – diluted	(450,6)	(92,1)

	2018 Rm	2017 Rm
Net cash flows in relation to discontinued operations:	Rm	Rm
Cash outflow from operating activities	(4)	(886)
Cash (outflow) / inflow from investing activities	(93)	670
Cash inflow from financing activities	17	5

7. 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 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 6: Discontinued operations,* 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 operations in the disclosure of the segmental statement of comprehensive earnings and segmental statement of financial position.

Details on the reportable segments are as follows:

7.1 Continuing operations

7.1.1 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, Southeast Asia and Middle East.

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

7.1.2 Mining

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

7.1.3 Other and Eliminations

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

Included in the segment are several properties that are classified as Held for Sale – refer to *note 20: Assets and liabilities classified as Held for Sale*. As these properties are separately identifiable assets, the segment remains a continuing operation.

7.2 Discontinued operations

7.2.1 Construction and Engineering: South Africa and rest of Africa

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

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

7.2.2 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.

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

Notes to the consolidated financial statements continued

for the year ended 30 June 2018

7. SEGMENTAL REPORT continued

Statement of financial position

CONTINUING OPERATIONS

	Construction and Engineering: Australasia and Asia			Mining			Other and Eliminations		
	2018	2017	%	**2018**	2017	%	**2018**	2017	%
Assets									
Goodwill arising on consolidation	**100**	100	–	**–**	–	–	**–**	232	(100,0)
Intangible assets	**–**	–	–	**24**	28	(14,3)	**23**	148	(84,5)
Property, plant and equipment	**409**	602	(32,1)	**2 598**	2 539	2,3	**3**	306	(99,0)
Equity-accounted investments	**31**	52	(40,4)	**1**	4	(75,0)	**16**	319	(95,0)
Infrastructure investments	**–**	–	–	**–**	–	–	**142**	142	–
Deferred taxation	**644**	551	16,9	**14**	47	(70,2)	**8**	530	(98,5)
Derivative instruments	**–**	–	–	**3**	2	50,0	**–**	–	–
Amounts due from contract customers	**2 838**	3 029	(6,3)	**518**	764	(32,2)	**(46)**	(287)	84,0
Inventories	**20**	9	>100,0	**235**	211	11,4	**–**	–	–
Trade and other receivables	**58**	86	(32,6)	**66**	93	(29,0)	**56**	136	(58,8)
Taxation receivable	**20**	10	100,0	**7**	25	(72,0)	**2**	15	(86,7)
Cash and bank balances	**1 443**	1 237	16,7	**286**	410	(30,2)	**(336)**	(393)	14,5
Assets Held for Sale	**99**	–	100,0	**–**	–	–	**224**	118	89,8
Total assets	**5 662**	5 676	(0,2)	**3 752**	4 123	(9,0)	**92**	1 266	(92,7)
Liabilities									
Deferred taxation	**90**	–	100,0	**264**	184	43,5	**(382)**	133	>(100,0)
Borrowings and other liabilities	**204**	921	(77,9)	**200**	317	(36,9)	**2 883**	1 824	58,1
Payables other than contract-related	**–**	–	–	**–**	–	–	**146**	154	(5,2)
Employee-related payables	**320**	298	7,4	**116**	187	(38,0)	**65**	80	(18,8)
Derivative instruments	**–**	–	–	**–**	–	–	**–**	–	–
Trade and other payables	**1 999**	2 304	(13,2)	**638**	677	(5,8)	**296**	205	44,4
Amounts due to contract customers	**1 098**	854	28,6	**42**	85	(50,6)	**–**	17	(100,0)
Bank overdrafts	**–**	–	–	**–**	–	–	**315**	–	100,0
Liabilities Held for Sale	**–**	–	–	**–**	–	–	**–**	–	–
Total liabilities	**3 711**	4 377	(15,2)	**1 260**	1 450	(13,1)	**3 323**	2 413	37,7

			DISCONTINUED OPERATIONS								
Total			Construction and Engineering: South Africa and rest of Africa			Manufacturing and processing			Total		
2018	2017	%	**2018**	2017	%	**2018**	2017	%	**2018**	2017	%
100	332	(69,9)	**–**	–	–	**–**	10	(100,0)	**–**	10	(100,0)
47	176	(73,3)	**–**	–	–	**–**	95	(100,0)	**–**	95	(100,0)
3 010	3 447	(12,7)	**–**	398	(100,0)	**–**	766	(100,0)	**–**	1 164	(100,0)
48	375	(87,2)	**25**	(40)	>100,0	**–**	(1)	100,0	**25**	(41)	>100,0
142	142	–	**–**	123	(100,0)	**–**	–	–	**–**	123	(100,0)
666	1 128	(41,0)	**78**	143	(45,5)	**3**	19	(84,2)	**81**	162	(50,0)
3	2	50,0	**–**	–	–	**–**	–	–	**–**	–	–
3 310	3 506	(5,6)	**–**	876	(100,0)	**–**	86	(100,0)	**–**	962	(100,0)
255	220	15,9	**–**	40	(100,0)	**–**	1 825	(100,0)	**–**	1 865	(100,0)
180	315	(42,9)	**–**	112	(100,0)	**–**	1 413	(100,0)	**–**	1 525	(100,0)
29	50	(42,0)	**1**	12	(91,7)	**9**	(1)	>100,0	**10**	11	(9,1)
1 393	1 254	11,1	**474**	237	100,0	**524**	505	3,8	**998**	742	34,5
323	118	>100,0	**1 201**	4	>100,0	**3 249**	–	100,0	**4 450**	4	>100,0
9 506	11 065	(14,1)	**1 779**	1 905	(6,6)	**3 785**	4 717	(19,8)	**5 564**	6 622	(16,0)
(28)	317	>(100,0)	**13**	–	100,0	**64**	2	>100,0	**77**	2	>100,0
3 287	3 062	7,3	**–**	–	–	**–**	4	(100,0)	**–**	4	(100,0)
146	154	(5,2)	**–**	–	–	**–**	–	–	**–**	–	–
501	565	(11,3)	**–**	173	(100,0)	**–**	75	(100,0)	**–**	248	(100,0)
–	–	–	**–**	–	–	**–**	17	(100,0)	**–**	17	(100,0)
2 933	3 186	(7,9)	**25**	966	(97,4)	**–**	1 757	(100,0)	**25**	2 723	(99,1)
1 140	956	19,2	**–**	394	(100,0)	**–**	1	(100,0)	**–**	395	(100,0)
315	–	100,0	**–**	–	–	**–**	–	–	**–**	–	–
–	–	–	**1 605**	–	100,0	**2 475**	–	100,0	**4 080**	–	100,0
8 294	8 240	0,7	**1 643**	1 533	7,2	**2 539**	1 856	36,8	**4 182**	3 389	23,4

Notes to the consolidated financial statements continued

for the year ended 30 June 2018

7. SEGMENTAL REPORT continued

Statement of comprehensive income

	CONTINUING OPERATIONS								
	Construction and Engineering: Australasia and Asia			Mining			Other and Eliminations		
	2018	2017	%	**2018**	2017	%	**2018**	2017	%
Revenue	**11 716**	6 183	89,5	**4 713**	4 184	12,6	**176**	(723)	>100,0
Cost of sales	**(10 788)**	(9 767)	(10,5)	**(4 452)**	(3 774)	(18,0)	**117**	237	(50,6)
Gross earnings / (loss)	**928**	(3 584)	>100,0	**261**	410	(36,3)	**293**	(486)	>100,0
Other earnings / (loss)	**7**	9	(22,2)	**(23)**	6	>(100,0)	**9**	23	(61,6)
Operating expenses	**(827)**	(810)	(2,1)	**(227)**	(197)	(15,1)	**(272)**	(214)	(27,1)
(Loss) / earnings from equity-accounted investments	**(5)**	15	>(100,0)	**–**	–	–	**(11)**	(7)	(57,1)
Operating (loss) / profit	**103**	(4 370)	>100,0	**11**	219	(94,9)	**19**	(684)	>100,0
South African government settlement	**–**	–	–	**–**	–	–	**–**	(165)	100,0
Net operating (loss) / earnings	**103**	(4 370)	>100,0	**11**	219	(94,9)	**19**	(849)	>100,0
Impairment loss on goodwill, intangible assets and property, plant and equipment	**–**	–	–	**(55)**	1	>(100,0)	**(111)**	(39)	>(100,0)
Impairment loss on equity-accounted investments	**–**	–	–	**–**	–	–	**(188)**	–	(100,0)
Fair value adjustments on properties and disposal groups classified as Held for Sale	**–**	–	–	**–**	–	–	**(73)**	–	(100,0)
Profit on sale of property, plant and equipment	**32**	–	100,0	**–**	–	–	**3**	1	>100,0
(Loss) / profit before financing transactions	**135**	(4 370)	>100,0	**(44)**	220	>(100,0)	**(350)**	(887)	60,5
Net finance expenses	**(220)**	(179)	(22,9)	**(63)**	(20)	>(100,0)	**(67)**	(213)	68,5
(Loss) / earnings before taxation	**(85)**	(4 549)	98,1	**(107)**	200	>(100,0)	**(417)**	(1 100)	62,1
Taxation	**(36)**	(209)	82,8	**(116)**	(90)	(28,9)	**(289)**	(490)	41,0
Loss for the period	**(121)**	(4 758)	97,5	**(223)**	110	>(100,0)	**(706)**	(1 590)	55,6
Capital expenditure	**136**	168	(19,0)	**507**	557	(9,0)	**5**	8	(37,5)
Depreciation	**(132)**	(175)	24,6	**(394)**	(269)	(46,5)	**(8)**	(11)	27,3
Amortisation	**–**	–	–	**(4)**	(1)	>(100,0)	**(16)**	(15)	(6,7)
(Loss) / earnings before interest, taxation, depreciation and amortisation (EBITDA)	**235**	(4 195)	>100,0	**409**	489	(16,4)	**43**	(823)	>100,0

	Total					DISCONTINUED OPERATIONS					
			Construction and engineering: South Africa and the rest of Africa			Manufacturing and Processing			Total		
2018	2017	%	**2018**	2017	%	**2018**	2017	%	**2018**	2017	%
16 605	9 644	72,2	**6 622**	5 876	12,7	**7 353**	7 936	(7,3)	**13 975**	13 812	1,2
(15 123)	(13 304)	(13,7)	**(6 660)**	(5 843)	(14,0)	**(6 999)**	(7 444)	6,0	**(13 659)**	(13 287)	(2,8)
1 482	(3 660)	>100,0	**(38)**	33	>(100,0)	**354**	492	(28,0)	**316**	525	(39,8)
(7)	38	>(100,0)	**21**	60	(65,0)	**92**	108	(14,8)	**113**	168	(32,7)
(1 326)	(1 221)	(8,6)	**(353)**	(481)	26,5	**(613)**	(603)	(1,7)	**(966)**	(1 084)	10,9
(16)	8	>(100,0)	**3**	(4)	>100,0	**–**	–	–	**3**	(4)	>100,0
133	(4 835)	>100,0	**(367)**	(392)	6,3	**(167)**	(3)	>(100,0)	**(534)**	(395)	(35,3)
–	(165)	100,0	**–**	–	–	**–**	–	–	**–**	–	–
133	(5 000)	>100,0	**(367)**	(392)	6,3	**(167)**	(3)	>(100,0)	**(534)**	(395)	(35,3)
(166)	(38)	>(100,0)	**(82)**	33	>(100,0)	**(1 050)**	(273)	>(100,0)	**(1 132)**	(240)	>(100,0)
(188)	–	(100,0)	**(7)**	–	(100,0)	**–**	–	–	**(7)**	–	(100,0)
(73)	–	(100,0)	**–**	–	–	**(734)**	–	(100,0)	**(734)**	–	(100,0)
35	1	>100,0	**11**	–	100,0	**1**	3	(66,7)	**12**	3	>100,0
(259)	(5 037)	94,9	**(445)**	(359)	(24,0)	**(1 950)**	(273)	>(100,0)	**(2 395)**	(632)	>(100,0)
(350)	(412)	15,0	**(12)**	14	>(100,0)	**(77)**	(46)	(67,4)	**(89)**	(32)	>(100,0)
(609)	(5 449)	88,8	**(457)**	(345)	(32,5)	**(2 027)**	(319)	>(100,0)	**(2 484)**	(664)	>(100,0)
(441)	(789)	44,1	**(37)**	93	>(100,0)	**52**	70	(25,7)	**15**	163	(90,8)
(1 050)	(6 238)	83,2	**(494)**	(252)	(96,0)	**(1 975)**	(249)	>(100,0)	**(2 469)**	(501)	>(100,0)
648	733	(11,6)	**49**	80	(38,8)	**89**	142	(37,3)	**138**	222	(37,8)
(534)	(455)	(17,4)	**(62)**	(69)	10,1	**(70)**	(102)	31,4	**(132)**	(171)	22,8
(20)	(16)	(25,0)	**–**	–	–	**(8)**	(13)	38,5	**(8)**	(13)	38,5
687	(4 529)	>100,0	**(305)**	(323)	5,6	**(89)**	112	>(100,0)	**(394)**	(211)	(86,7)

Notes to the consolidated financial statements continued

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7. SEGMENTAL REPORT continued

The Group operates in six principal geographical areas:

	2018 Revenue Rm	2017 Revenue Rm	**2018 Segment assets Rm**	2017 Segment assets Rm	**2018 Capital expenditure Rm**	2017 Capital expenditure Rm
South Africa	**16 754**	15 281	**9 349**	11 172	**554**	684
Rest of Africa including Mauritius	**1 910**	1 717	**1 071**	1 157	**95**	102
Australia	**6 817**	1 193	**2 148**	2 751	**59**	94
New Zealand	**1 734**	2 580	**469**	798	**25**	25
Southeast Asia	**2 602**	2 427	**1 833**	1 631	**52**	49
Middle East and other regions	**763**	258	**200**	178	**1**	1
	30 580	23 456	**15 070**	17 687	**786**	955

8. IMPAIRMENTS

The Group performed its annual impairment test at 30 June 2018. The test involves the assessment of internal and external qualitative factors for each cash-generating unit ("CGU") that may constitute an indicator of impairment. The test may extend to individual assets in instances of underutilisation, obsolescence, physical damage or material decline in the economic performance of the asset.

CGUs of the Group

As detailed in *note 6: Discontinued operations*, the Board made the decision that the operating groups of the following reportable segments no longer form part of the overall long-term strategy of the Group:

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

The intention of the Board to discontinue the operations of these reportable segments and the subsequent classification of the underlying assets and liabilities as Held for Sale are indicators of impairment – refer to *note 20: 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:

Construction and Engineering: South Africa and rest of Africa

- Aveng Water;
- Aveng Grinaker-LTA Building;
- Aveng Grinaker-LTA Coastal;
- Aveng Grinaker-LTA Civil Engineering;
- 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 Rail;
- Aveng Duraset; and
- Aveng Infraset.

Goodwill arising on consolidation

A compulsory impairment assessment of goodwill allocated to the Aveng DFC and McConnell Dowell CGUs were performed in the current year. The McConnell Dowell CGU falls under the *Construction and Engineering: Australasia and Asia* reportable segment.

8. IMPAIRMENTS continued

Other individual assets in scope of *IAS 36*

The outcome of the strategic review included the intention to dispose of certain non-core properties. The intention to dispose of these properties, triggered an impairment assessment prior to classification as Held for Sale. These affected properties are accounted for in the *Other and Eliminations* reportable segment.

Centralised software systems managed at corporate level are deemed corporate assets as defined by *IAS 36 Impairment of assets*. The components of the centralised systems attributable to the operating groups of the above mentioned discontinued reportable segments were subject to an impairment assessment. The centralised software systems are accounted for in the *Other and Eliminations* reportable segment.

An impairment assessment was performed on plant and equipment accounted for in Aveng Moolmans. Aveng Moolmans falls under the *Mining* reportable segment. The impairment assessment was triggered by the underutilisation of these assets.

As disclosed in *note 12: Equity-accounted investments*, impairment charges were recognised on the Group's investments in Oakleaf Investment Holdings 86 Proprietary Limited, Steeledale Proprietary Limited and Specialised Road Technologies Proprietary Limited.

Determination of the recoverable amount

CGUs of the Group and goodwill arising on consolidation

Management determined the recoverable amounts of all CGUs within the *Construction and Engineering: South Africa and rest of Africa* and *Manufacturing and Processing* segments to be the fair value less cost of disposal.

The CGU fair values were all categorised as level 3 per the *IFRS 13 Fair Value Measurement* hierarchy based on the inputs used in the valuation techniques.

The valuation techniques used to determine the fair values of the CGUs were:
- The Enterprise Value EBITDA multiple method ("EV / EBITDA Multiple") (Market approach per *IFRS 13 Fair Value Measurement*); and
- The Discounted cash flow method ("DCF") (Income approach per *IFRS 13 Fair Value Measurement*).

The fair value valuations were determined based on management's past experience, best estimates and the assistance of external valuation consultants. The cash flows incorporated in the valuation models were based on the approved budgets for the 2019 financial year, as well as the forecasts until 2021 utilising the following assumptions:

- **EV / EBITDA Multiple valuation method**

  Risk adjusted peer average EBITDA multiples – The Group calculated the average peer EBITDA multiples of local and international competitors adjusted for risks a market participant would incorporate in the valuation. The range of the multiples applied in the CGU impairment assessments was between 1,2x and 4,8x.

- **DCF valuation method**

  Discount rate – The discount rate used in the DCF valuations is the weighted average cost of capital (WACC). The WACC is based on a market-related peer average rate adjusted for entity-specific risks a market participant would incorporate. The discount rate range of the CGU impairment assessments was between 17,0% and 21,2%.

  Terminal value exit EBITDA multiple – The terminal value is calculated by multiplying the terminal EBITDA (EBITDA as forecasted for 2021) with the average peer EBITDA multiple of local and international competitors adjusted for risks a market participant would incorporate. The range of the multiples applied in the CGU impairment assessments was between 2,0x and 3,6x.

  Period of projection – The period of projection is impacted by the ability of management to forecast cash flows in the future. Forecasting has been performed for a period of three years with a terminal value exit EBITDA multiple applied to determine the terminal value.

The cost of disposal, being the incremental costs directly attributable to the disposal of the assets, comprise primarily of financial consulting costs, legal and audit fees. Management used their best estimate in determining the cost of disposal for each CGU based on the complexity of the potential deal, the deal valuation and the costs associated with similar transactions in the past.

Notes to the consolidated financial statements continued

for the year ended 30 June 2018

8. IMPAIRMENTS continued

Determination of the recoverable amount continued

Sensitivity analysis

The impact on the impairment losses recognised based on sensitivities applied to the assumptions of the valuation methods are as follows:

Assumption	Sensitivity applied	Impact on current impairment charge
EV / EBITDA Multiple valuation method		
Risk adjusted peer average EBITDA multiples	Increase multiple by 0,5x	R31 million decrease
Risk adjusted peer average EBITDA multiples	Decrease multiple by 0,5x	R33 million increase
DCF valuation method		
Discount rate	Increase by 100 basis points	R5 million increase
Discount rate	Decrease by 100 basis points	R3 million decrease
Terminal value exit EBITDA multiple	Increase multiple by 0,5x	R17 million decrease
Terminal value exit EBITDA multiple	Decrease multiple by 0,5x	R17 million increase

Other individual assets in scope of IAS 36

The recoverable amounts of the properties assessed for impairment before classification as Held for Sale were determined as the fair value less cost of disposal. The fair values of the properties were based on the valuation reports compiled by external valuation consultants. The valuations were based on the future rental cash inflows valuation method and incorporate the actual location, type and quality of the properties supported by the terms of any existing lease, other contracts or current market rents for similar properties. The fair values of the properties are all level 3 per the *IFRS 13 Fair Value Measurement* hierarchy.

The recoverable amounts of all other individual assets subject to impairment assessments have been determined as zero.

8.1 Impairment of property, plant and equipment and intangible assets

The total impairment losses for the year per CGU and individual assets are summarised as follows:

	Property, plant and equipment Rm	Intangible assets Rm
CGUs of the Group		
Aveng Grinaker-LTA Civil Engineering	35	–
Aveng Grinaker-LTA GEL	4	–
Aveng Grinaker-LTA Rand Roads	43	–
Aveng Trident Steel	152	–
Aveng DFC	44	56
Aveng Rail	99	5
Aveng Duraset	49	23
Aveng Infraset	364	16
Other individual assets in scope of IAS 36		
Properties prior to classification as Held for Sale	43	–
Corporate assets – Centralised software systems	–	68
Aveng Moolmans – Plant and equipment	55	–
	888	168

8. IMPAIRMENTS continued

8.2 Impairment of goodwill arising on consolidation

The impairment assessment of the Aveng DFC CGU led to the recognition of the following impairment loss:

	Goodwill arising on consolidation Rm
CGUs of the Group	
Aveng DFC	242

CGUs not impaired and not sensitive to impairment

Goodwill arising on consolidation allocated to the McConnell Dowell CGU was subject to the mandatory annual impairment assessment as required by *IAS 36.* The recoverable amount of the CGU, being the value-in-use based on a discount rate of 12%, materially exceeded the carrying amount of the CGU and hence no goodwill impairment loss was recognised in the current year. No goodwill impairment loss was recognised in the prior year.

	2018 Rm	2017 Rm
Goodwill arising on consolidation	**(242)**	–
Intangible assets	**(168)**	(53)
Property, plant and equipment	**(888)**	(225)
	(1 298)	(278)

9. PROPERTY, PLANT AND EQUIPMENT

Reconciliation of property, plant and equipment – 2018

	Land and buildings Rm	Leased plant, equipment and vehicles Rm	Owned plant, equipment and vehicles Rm	Total Rm
Cost				
Opening balance	490	86	11 714	12 290
Additions	5	–	758	763
Disposals	(72)	(8)	(897)	(977)
Transfers	–	–	(50)	(50)
Reclassifications	(3)	(5)	(17)	(25)
Classified as Held for Sale – transferred out	(388)	(11)	(3 676)	(4 075)
Foreign exchange movements	5	(46)	53	12
	37	16	7 885	7 938
Accumulated depreciation and impairment				
Opening balance	(100)	(54)	(7 525)	(7 679)
Depreciation*	(19)	(6)	(641)	(666)
Impairment	(120)	–	(768)	(888)
Disposals	24	7	784	815
Transfers	–	–	50	50
Reclassifications	3	3	2	8
Classified as Held for Sale – transferred out	191	8	3 203	3 402
Foreign exchange movements	(2)	29	3	30
	(23)	(13)	(4 892)	(4 928)
	14	3	2 993	3 010

Notes to the consolidated financial statements continued

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9. PROPERTY, PLANT AND EQUIPMENT continued

Reconciliation of property, plant and equipment – 2017 continued

	Land and buildings Rm	Leased plant, equipment and vehicles Rm	Owned plant, equipment and vehicles Rm	Total Rm
Cost				
Opening balance	511	86	12 146	12 743
Additions	14	9	905	928
Disposals	(8)	(5)	(2 559)	(2 572)
Transfers	1	–	(103)	(102)
Foreign exchange movements	(28)	(4)	1 325	1 293
	490	86	11 714	12 290
Accumulated depreciation and impairment				
Opening balance	(96)	(50)	(7 754)	(7 900)
Depreciation*	(22)	(12)	(593)	(627)
Impairment	–	–	(225)	(225)
Disposals	8	5	2 391	2 404
Transfers	–	–	65	65
Foreign exchange movements	10	3	(1 409)	(1 396)
	(100)	(54)	(7 525)	(7 679)
	390	32	4 189	4 611

** Depreciation included in cost of sales amounted to R643 million (2017: R600 million) and amounts included in operating expenses amounted to R23 million (2017: R27 million). Refer to note 32: Operating expenses.*

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

Pledged as security

The Group has pledged certain plant and machinery as security for certain interest-bearing borrowings (refer to *note 22: Borrowings and other liabilities*).

10. GOODWILL ARISING ON CONSOLIDATION

Reconciliation of goodwill arising on consolidation

	2018 Rm	2017 Rm
Cost		
Opening balance	**1 455**	1 455
Accumulated impairment		
Opening balance	**(1 113)**	(1 113)
Impairment*	**(242)**	–
	(1 355)	(1 113)
Carrying amount	**100**	342
Allocation of goodwill to CGUs		
The carrying amount of goodwill has been allocated to the following CGUs:		
Dynamic Fluid Control	**–**	242
McConnell Dowell	**100**	100
	100	342

* Refer to *note 8.2: Impairment of goodwill arising on consolidation*

11. INTANGIBLE ASSETS

Reconciliation of intangible assets – 2018

	Indefinite useful life brand names and trade-marks Rm	Brand names Rm	Customer lists Rm	Know-how Rm	Computer software Rm	Total Rm
Cost						
Opening balance	**48**	**31**	**116**	**102**	**386**	**683**
Capitalised	**–**	**–**	**–**	**–**	**23**	**23**
Classified as Held for Sale – transferred out	**(48)**	**(31)**	**(116)**	**(102)**	**(162)**	**(459)**
	–	**–**	**–**	**–**	**247**	**247**
Accumulated amortisation and impairments						
Opening balance	**(48)**	**(16)**	**(82)**	**(66)**	**(200)**	**(412)**
Amortisation	**–**	**(3)**	**(3)**	**(3)**	**(19)**	**(28)**
Impairments*	**–**	**(12)**	**(31)**	**(33)**	**(92)**	**(168)**
Classified as Held for Sale – transferred out	**48**	**31**	**116**	**102**	**111**	**408**
	–	**–**	**–**	**–**	**(200)**	**(200)**
	–	**–**	**–**	**–**	**47**	**47**

* Please refer to *note 8.1: Impairment of property, plant and equipment and intangible assets.*

Reconciliation of intangible assets – 2017

	Indefinite useful life brand names and trade-marks Rm	Brand names Rm	Customer lists Rm	Know-how Rm	Computer software Rm	Total Rm
Cost						
Opening balance	48	31	116	102	359	656
Capitalised	–	–	–	–	27	27
	48	31	116	102	386	683
Accumulated depreciation and impairments						
Opening balance	(48)	(14)	(79)	(62)	(128)	(331)
Amortisation	–	(2)	(3)	(4)	(19)	(28)
Impairments	–	–	–	–	(53)	(53)
	(48)	(16)	(82)	(66)	(200)	(412)
	–	15	34	36	186	271

Notes to the consolidated financial statements continued

for the year ended 30 June 2018

12. EQUITY-ACCOUNTED INVESTMENTS

	2018 Rm	2017 Rm
Opening balance	**334**	100
Loans (paid) / advanced	**(18)**	202
Obligation for Group share of REHM Grinaker Construction Co Limited losses	**–**	(26)
Capitalisation of interest to investment	**–**	16
Acquisition of equity interest in Steeledale Proprietary Limited	**–**	33
Impairment of investments	**(39)**	–
Impairment of loans receivable from Steeledale Proprietary Limited	**(156)**	–
Provision raised – claims	**(2)**	–
Transaction costs capitalised	**–**	11
Share of earnings after taxation and dividends – amount recorded in the statement of comprehensive earnings	**(13)**	4
Foreign currency translation movement	**(1)**	(6)
	105	334
Classified as Held for Sale – transferred out	**(32)**	–
	73	334

Investments	Holding	2018 Rm	2017 Rm
Reconciliation of investments			
Investments (including loan balances)*	% holding		
Oakleaf Investment Holdings 86 Proprietary Limited	50	**32**	38
REHM Grinaker Property Co Limited	43	**18**	17
REHM Grinaker Construction Co Limited	43	**7**	6
Dutco McConnell Dowell Middle East Limited	50	**31**	52
Steeledale Proprietary Limited ("Steeledale")	30	**16**	213
Other		**1**	8
		105	334
Classified as Held for Sale – transferred out		**(32)**	–
		73	334

** None of the investments are individually significant to warrant separate disclosure in terms of IFRS 12 Disclosure of Interests in Other Entities.*

12. EQUITY-ACCOUNTED INVESTMENTS continued

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

	2018 Rm	2017 Rm
Aggregate carrying amount of associates	**73**	296
Aggregate carrying amount of joint ventures	**–**	38
	73	334
The Group's share of results of operations of equity-accounted investments are summarised below:		
Associates		
(Loss) / earnings for the year	**(13)**	3
Joint ventures		
(Loss) / earnings for the year	**–**	1
	–	1
Total from equity-accounted investments	**(13)**	4
Total share of (loss) / earnings from equity-accounted investments	**(13)**	4
Impairments		
Impairment loss on investments in associates	**(39)**	–
Impairment loss on amounts receivable from associates	**(156)**	–
Total impairment loss on equity-accounted investments	**(195)**	–

Impairment of equity-accounted investments

Steeledale Proprietary Limited ("Steeledale")

The challenging trading environment in the local steel industry constitutes an external indicator of impairment necessitating an impairment assessment of the carrying value of the Steeledale investment as at 30 June 2018. An impairment loss of R26 million, being the value of the carrying amount, was recognised in the current year.

The impairment loss of R156 million recognised on the loan receivable was measured as the difference between the carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the original effective interest rate of 13,00%.

Other impairments

In the current year, impairment losses of R6 million and R7 million were recognised on the investment in Oakleaf Investment Holdings 86 Proprietary Limited and Specialised Road Technologies Proprietary Limited, respectively.

Regulatory constraints

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

Contingent liabilities

The Group's share of bank guarantees issued by its joint ventures and associates is R1,394 billion (June 2017: R183 million). A subordination agreement is in place with SASFIN amounting to R275 million for Steeledale.

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for the year ended 30 June 2018

13. INFRASTRUCTURE INVESTMENTS

	2018 Rm	2017 Rm
South African infrastructure investments		
Financial investments	**142**	265
	142	265

The investments in Imvelo Concession Company Proprietary Limited (Imvelo) and Firefly Investments 238 Proprietary Limited (Firefly) are managed by ACP and accounted for under the *Construction and Engineering: South Africa and rest of Africa* reportable segment. These investments do not form part of the Group's long-term strategy and have been classified as Held for Sale (refer to *note 20: Non-current assets and liabilities classified as Held for Sale*).

The investment in Dimopoint Proprietary Limited (Dimopoint) is classified as a financial asset at fair value through profit or loss. Please refer to *Note 48: Fair value of assets and liabilities* for details regarding the valuation methodology and other disclosures required by *IFRS 13 Fair Value Measurement*.

	2018 Rm	2017 Rm
South African infrastructure investments		
Opening balance	**265**	177
Classified as Held for Sale – transferred out	**(121)**	(4)
Classified as Held for Sale – transferred in	**–**	39
Fair value remeasurement through comprehensive earnings	**–**	56
Interest capitalised on loans	**4**	6
Loan repayment	**(6)**	(9)
	142	265
Balance at the end of the year comprises:		
Dimopoint Proprietary Limited (Dimopoint)	**142**	144
Imvelo Concession Company Proprietary Limited (Imvelo)	**–**	63
Firefly Investments 238 Proprietary Limited (Firefly)	**–**	58
	142	265

14. DEFERRED TAXATION

	2018 Rm	2017 Rm
Reconciliation of deferred taxation asset		
At the beginning of the year	**1 290**	1 858
Recognised in earnings or loss – current year	**(373)**	(433)
Recognised in earnings or loss – adjustment for prior year	**9**	(38)
Effect of change in foreign tax rate	**(2)**	–
Foreign currency translation movement	**3**	(85)
Reallocation from deferred taxation liability*	**(180)**	(10)
Disposal of subsidiary	**–**	(2)
	747	1 290
Reconciliation of deferred taxation liability		
At the beginning of the year	**(319)**	(266)
Recognised in earnings or loss – current year	**89**	(77)
Recognised in earnings or loss – adjustment for prior year	**–**	13
Reallocation to deferred taxation asset*	**180**	10
Foreign currency translation movement	**1**	1
	(49)	(319)
Deferred taxation asset balance at the year end comprises		
Accelerated capital allowances	**(205)**	(229)
Provisions	**136**	256
Contracts	**136**	51
Other	**(227)**	44
Assessed losses carried forward	**907**	1 168
	747	1 290
Deferred taxation liability balance at the year end comprises		
Accelerated capital allowances	**(10)**	(418)
Provisions	**–**	17
Contracts	**–**	(4)
Other	**(8)**	(85)
Convertible bond	**(32)**	(62)
Assessed losses carried forward	**1**	233
	(49)	(319)

** The reclassification of deferred tax liabilities to deferred tax assets are as a result of the changes in deferred tax positions of the underlying assets and liabilities*

The Group's results include a number of legal statutory entities within a number of taxation jurisdictions.

As at June 2018 the Group had unused taxation losses of R12 830 million (2017: R13 201 million) available for offset against future profits. A deferred taxation asset has been recognised in respect of R3 107 million (2017: R4 949 million) of such losses. No deferred taxation asset has been recognised in respect of the remaining R9 724 million (2017: R8 252 million) due to the uncertainty of future taxable profits in the related legal entities.

Unused tax losses

The Group performed a five-year forecast for the financial years 2019 to 2023, which is the key evidence that supports the recognition of deferred taxation assets. The forecast specifically focused on Aveng Africa Proprietary Limited and Aveng Australia Holdings.

In addition, in terms of the strategic review the Group is making good progress in positioning Aveng for future profitability, including considerable restructuring and right sizing of the business in line with current market conditions. Attention has been given to the commercial and risk management processes and pre-tender assessments. This will enhance margins in the foreseeable future.

Notes to the consolidated financial statements continued

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15. DERIVATIVE INSTRUMENTS

	2018 Net fair value Rm	2017 Net fair value Rm
Current assets		
Derivative instruments at fair value through profit or loss	**9**	2
Classified as Held for Sale – transferred out	**(6)**	–
	3	2
Current liabilities		
Derivative instruments at fair value through profit or loss	**–**	17

Derivative instruments subject to enforceable netting agreements amounted to a net asset of R3 million (2017: Net liability of R15 million). The Group held Rnil (2017: Rnil) of collateral against the net derivative asset exposure. International Swaps and Derivatives Association (ISDA) Master Agreements are utilised by the Group. The ISDA Master Agreement and all the confirmations entered into under it, form a single agreement. This allows the parties to an ISDA Master Agreement to aggregate the amounts owing by each of them under all of the transactions outstanding under that ISDA Master Agreement and to replace them with a single net amount payable by one party to the other. Refer to *note 49: Offsetting financial assets and financial liabilities* for further information.

Fair value

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

The fair values of derivative instruments and the foreign exchange risk management policies applied by the Group are disclosed in *note 48: Fair value of assets and liabilities* and *note 47: Risk management* respectively.

16. AMOUNTS DUE FROM / (TO) CONTRACT CUSTOMERS

	2018 Rm	2017 Rm
Uncertified claims and variations (underclaims)**[1]	**1 646**	1 760
Contract contingencies**	**(490)**	(701)
Progress billings received (including overclaims)[2]	**(1 404)**	(1 205)
Uncertified claims and variations less progress billings received	**(248)**	(146)
Contract receivables[3]	**2 602**	3 262
Provision for contract receivables	**(2)**	(2)
Retention receivables[4]	**208**	149
	2 560	3 263
Amounts received in advance[5]	**(85)**	(146)
	2 475	3 117
Classified as Held for Sale – transferred out (net)	**(305)**	–
Net amounts due from contract customers	**2 170**	3 117
Disclosed on the statement of financial position as follows:		
Uncertified claims and variations**	**1 646**	1 760
Contract contingencies	**(490)**	(701)
Contract and retention receivables	**2 810**	3 411
Provision for contract receivables	**(2)**	(2)
Classified as Held for Sale – transferred out	**(654)**	–
Amounts due from contract customers	**3 310**	4 468
Progress billings received	**(1 404)**	(1 205)
Amounts received in advance	**(85)**	(146)
Classified as Held for Sale – transferred out	**349**	–
Amounts due to contract customers	**(1 140)**	(1 351)
Net amounts due from contract customers	**2 170**	3 117

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

Included in amounts due from contract customers are non-current amounts of R661 million (2017: R756 million). Refer to *note 47: Risk management* for further details.

Amounts due from contract customers include R942 million (2017: R908 million) which is subject to protracted legal proceedings.

[1] Includes revenue not yet certified – recognised based on percentage of completion / measurement and agreed variations, less provisions and deferred contract costs.
[2] Progress billings are amounts billed for work performed above revenue recognised.
[3] Amounts invoiced still due from customers.
[4] Retentions are amounts invoiced but not paid until the conditions specified in the contract are fulfilled or until defects have been rectified. These conditions are anticipated to be fulfilled within the following 12 months.
[5] Advances are amounts received from the customer before the related work is performed.

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17. TRADE AND OTHER RECEIVABLES

	2018 Rm	2017 Rm
Financial assets		
Trade receivables	**1 272**	1 340
Provision for doubtful debts	**(56)**	(30)
Sundry receivables	**247**	372
Non-financial assets		
Prepayments	**117**	158
	1 580	1 840
Classified as Held for Sale – transferred out	**(1 400)**	–
	180	1 840

The carrying amount of trade and other receivables approximates its fair value due to its short-term maturity.

Credit terms

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

Refer to *note 47: Risk management* for further details regarding the credit risk exposure.

18. INVENTORIES

	2018 Rm	2017 Rm
Raw materials	**586**	825
Work-in-progress	**98**	72
Finished goods*	**1 121**	967
Consumables	**276**	278
	2 081	2 142
Allowance for obsolete inventory	**(36)**	(57)
	2 045	2 085
Classified as Held for Sale – transferred out	**(1 790)**	–
	255	2 085
Reconciliation of movement in allowance for obsolete inventory		
Opening balance	**57**	59
Allowance released	**(34)**	(7)
Allowance created	**13**	5
	36	57
Inventories utilised in cost of sales during the year	**8 563**	9 154
Inventories written-off and impaired during the year	**13**	7

The value of inventory carried at net realisable value amounts to R357 million (2017: R408 million), with the balance carried at cost.

* *Included in the carrying amount of Finished goods is R10 million (2017: R12 million) relating to a basis adjustment against the carrying amount of inventory. Management elected to apply IAS 39 par (b) in terms of which the effective portion of a cash flow hedge that has been deferred in Other comprehensive income, as a result of a highly probable forecast transaction, is adjusted against the carrying amount of Inventory on initial recognition.*

19. CASH AND BANK BALANCES

	2018 Rm	2017 Rm
Cash and bank balances	**2 391**	1 996
Less: Bank overdrafts	**(315)**	–
	2 076	1 996
Cash and bank balances at the end of the period include the following cash and bank balances that are restricted from immediate use		
Group share of cash held by joint operations	**568**	625

The Group is offsetting notional bank overdrafts. Refer to *note 47: Risk management* for further disclosure on the Group's exposure to credit risk and *note 49: Offsetting financial assets and financial liabilities* for further disclosure on the impact of the Group's netting arrangements.

20. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

As disclosed in *note 6: Discontinued operations*, the outcome of the strategic review lead to the Board's decision to exclude the following reportable segments from the Group's long-term strategy:

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

These non-core reporting segments are presented as separately identifiable disposal groups and are disclosed as discontinued operations in the Group's statement of comprehensive earnings (refer to *note 6: Discontinued operations* and *note 7: Segmental report*). As the disposals are expected to occur within the next 12 months, the assets and liabilities were classified as Held for Sale. The proceeds from the disposals are expected to equal the net carrying amounts.

The assets and liabilities of the disposal groups were allocated to their cash-generating units (CGUs) and 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*). The carrying amounts of some of the assets in relation to the Manufacturing and Processing disposal group, exceeded their fair values less cost of disposal after being classified as Held for Sale. An adjustment was recognised to present these assets at their fair values less cost of disposal.

Individual properties accounted for under the *Other and Eliminations* reportable segment were classified as Held for Sale during the current year. The carrying amounts of some of the properties exceeded their fair values less cost of disposal prior to being classified as Held for Sale leading to the recognition of impairment losses (refer to *note 8: Impairments* for further details regarding the disclosures in terms of *IFRS 13 Fair Value Measurement*).

A single vessel, being a self-elevating barge used on projects in Singapore and accounted for in the *Construction and Engineering: Australasia and Asia* reportable segment, was deemed to be surplus to the operational requirements of the entity and subsequently advertised and classified as Held for Sale. Offers are being sought from interested parties via specialist brokers of marine vessels. The disposal of the asset is expected within the next 12 months. The fair value less cost of disposal of the asset has been assessed and exceeds its carrying amount.

The process relating to the disposal of the Vanderbijlpark property has extended beyond 12 months from classification as Held for Sale. A reassessment of the asset's fair value less cost of disposal was performed at year end. An external valuation was performed on the property and a fair value adjustment of R73 million was recognised in order to present and disclose the asset at its fair value less cost of disposal. The extension of the property's classification as Held for Sale beyond 12 months is supported by its disposal to an external party after year end. The valuation of the property was performed by an external valuation consultant and based on the future rental cash inflows valuation method. The valuation method incorporates the actual location, type and quality of the property supported by the terms of any existing lease, other contracts or current market rents for similar properties. The fair value of the property was assessed as level 3 per the *IFRS 13 Fair Value Measurement* hierarchy.

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20. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE continued

	2018 Rm	2017 Rm
Assets Held for Sale	**4 773**	122
Liabilities Held for Sale	**(4 080)**	–
	693	122
Movement during the year		
Opening balance	**122**	1 237
Transferred from / (to):		
Non-current assets	**874**	(39)
Current assets	**3 850**	(75)
Non-current liabilities	**(65)**	–
Current liabilities	**(3 281)**	181
Disposals of:		
Assets Held for Sale	**–**	(1 248)
Liabilities Held for Sale	**–**	66
Adjustment to fair value less cost of disposal*	**(807)**	–
Net assets Held for Sale	**693**	122

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

20. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE continued

As at 30 June 2018, the disposal groups and individual assets classified as Held for Sale were stated at fair value less costs of disposal and comprised the following:

2018 Rm

	Construction and Engineering: South Africa and the rest of Africa – Disposal group	Manufacturing and Processing – Disposal group	Properties – Vanderbijlpark	Properties – Jet Park	Properties – Other	Construction and Engineering: Australasia and Asia – Marine vessel Held for Sale	Total
ASSETS							
Non-current assets							
Intangible assets	–	51	–	–	–	–	51
Property, plant and equipment	282	110	43	128	53	99	715
Equity-accounted investments*	32	–	–	–	–	–	32
Infrastructure investments	125	–	–	–	–	–	125
	439	161	43	128	53	99	923
Current assets							
Inventories	44	1 746	–	–	–	–	1 790
Derivative instruments	–	6	–	–	–	–	6
Amounts due from contract customers	618	36	–	–	–	–	654
Trade and other receivables	100	1 300	–	–	–	–	1 400
	762	3 088	–	–	–	–	3 850
TOTAL ASSETS	1 201	3 249	43	128	53	99	4 773
LIABILITIES							
Non-current liabilities							
Borrowings and other liabilities	–	12	–	–	–	–	12
Employee-related payables	46	7	–	–	–	–	53
	46	19	–	–	–	–	65
Current liabilities							
Amounts due to contract customers	347	2	–	–	–	–	349
Borrowings and other liabilities	–	10	–	–	–	–	10
Employee-related payables	100	59	–	–	–	–	159
Trade and other payables	1 112	1 651	–	–	–	–	2 763
	1 559	1 722					3 281
Provision for unallocated fair value adjustments	–	734	–	–	–	–	734
TOTAL LIABILITIES	1 605	2 475	–	–	–	–	4 080
Net assets Held for Sale	(404)	774	43	128	53	99	693

** 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 the Aveng Capital Partners investment portfolio.*

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21. SHARE CAPITAL AND SHARE PREMIUM

	2018 Rm	2017 Rm
Authorised		
180 822 034 263 (2017: 882 034 263) ordinary shares of 5 cents each	**9 044**	44
Issued		
Share capital (396 817 098 ordinary shares of 5 cents each)	**20**	20
Share premium	**1 989**	1 989
Share capital and share premium	**2 009**	2 009
Treasury shares		
Shares held by the Aveng Limited Share Purchase Trust		
– Number of shares	**6 018 386**	6 018 386
– Market value (Rm)	**1**	35
Shares held by the Aveng Management Company Proprietary Limited		
– Number of shares	**788 684**	8 586 593
– Market value (Rm)	*****	50
Shares held in terms of equity-settled share-based payment plan		
– Number of shares	**13 046 763**	5 248 854
– Market value (Rm)	**2**	31

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

* *Less than R1 million.*

21. SHARE CAPITAL AND SHARE PREMIUM continued

	2018 Shares	**2018 Holding**	2017 Shares	2017 Holding
The top 10 shareholders of the Group as at 30 June 2018 are entities (or clients of these entities in aggregate) listed below:				
Allan Gray Proprietary Limited (ZA)	**100 511 612**	**24,1%**	103 861 025	24,9%
Coronation Asset Management Proprietary Limited	**85 815 005**	**20,6%**	62 583 834	15,0%
Investec Asset Management	**45 483 550**	**10,9%**	45 252 282	10,9%
Mazi Capital Proprietary Limited (ZA)	**21 768 541**	**5,2%**	20 592 178	4,9%
Dimensional Fund Advisors	**18 601 141**	**4,5%**	18 906 244	4,5%
Gool S (ZA)	**16 814 174**	**4,0%**	**	0,0%
Aveng (Africa) Limited ESOP LTIP (ZA)	**13 046 763**	**3,1%**	**	0,0%
Ashburton Investments (ZA)	**12 113 273**	**2,9%**	**	0,0%
Sanlam Investment Management	**10 279 199**	**2,5%**	9 926 765	2,4%
Aveng Community Investment Trust (ZA)	**8 586 593**	**2,1%**	8 586 593	2,1%
Visio Capital Management	*	*	34 851 550	8,4%
The Vanguard Group Inc	*	*	10 898 209	2,6%
Aveng Management Co Proprietary Limited (ZA)	*	*	8 586 593	2,1%
	333 019 851	**79,9%**	324 045 273	77,8%

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

Refer to *note 50: Events after the reporting period and pending transactions* for detail on matters which will impact the top ten shareholder listings after year end. Paragraphs *50.2* and *50.3* are of significance.

22. BORROWINGS AND OTHER LIABILITIES

	2018 Rm	2017 Rm
Borrowings held at amortised cost comprises:		
Total borrowings as at year end	**3 309**	3 066
Classified as Held for Sale – transferred out	**(22)**	–
Interest-bearing borrowings comprise:	**3 287**	3 066
Payment profile		
– within one year	**599**	1 121
– between two to five years	**2 688**	1 945
	3 287	3 066
Interest rate structure		
Fixed and variable (interest rates)		
Fixed – long-term	**1 946**	1 901
Fixed – short-term	**305**	348
Variable – long-term	**742**	48
Variable – short-term	**294**	769
	3 287	3 066

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22. BORROWINGS AND OTHER LIABILITIES continued

22.1 Borrowings held at amortised cost continued

Description	Terms	Rate of interest	2018 Rm	2017 Rm
Convertible bond of R2 billion	Interest coupon is payable bi-annually until July 2019	Coupon of 7,25%	**1 929**	1 823
Revolving credit facility	Repayable June 2020	JIBAR plus 3,00% to 5,75%	**700**	–
Short-term facility of AUD10 million****	Settled September 2017	Bank bill swap rate plus 0,70%	**–**	101
Short-term facility of AUD60 million***	Settled September 2017	Bank bill swap rate plus 2,20%	**–**	603
Super senior liquidity facility	Repayable February 2019	South African prime plus 2,50% to 5,50%	**255**	–
Short-term facility of AUD6 million	Repayable July 2018	Fixed interest rate of 4,63%	**62**	–
Term loan facility denominated in ZAR	Monthly instalments ending April 2021	Fixed interest rate of 10,58%	**48**	66
Finance lease facility of AUD12 million*	Monthly instalments ending November 2020	Fixed interest rate of 4,5%	**118**	145
Finance sale and lease back amounting to AUD2 million*	Settled December 2017	Fixed interest of 5,15% to 6,08%	**–**	24
Hire purchase agreements amounting to AUD2 million*	Monthly instalments ending November 2023	Fixed interest of 1,35% to 7%	**24**	42
Hire purchase agreement amounting to AUD0,5 million*	Settled August 2017	Fixed interest rate of 6,81%	**–**	5
Hire purchase agreement denominated in USD*	Settled September 2017	Fixed interest rate of 4,58% to 4,65%	**–**	44
Hire purchase agreement denominated in ZAR*	Settled December 2017	South African prime less 2,00%	**–**	16
Hire purchase agreement denominated in ZAR*	Settled November 2017	South African prime plus 2,00%	**–**	21
Hire purchase agreement denominated in ZAR*	Monthly instalments ending November 2019	South African prime less 1,70%	**29**	51
Hire purchase agreement denominated in ZAR*	Settled May 2018	Fixed interest rate of 9,70%	**–**	24
Finance lease facility denominated in ZAR*	Monthly instalments ending December 2018	South African prime	**2**	4
Hire purchase facility denominated in USD*	Monthly instalments ending August 2021	Fixed interest rate of 6,68%	**63**	74
Finance lease facilities denominated in ZAR*	Monthly instalments ending August 2022	South African prime	**19**	20
Hire purchase agreement denominated in ZAR*	Monthly instalments ending August 2020	South African prime plus 0,50%	**18**	–
Hire purchase agreement denominated in ZAR*	Monthly instalments ending September 2018	Fixed interest rate of 12,50%	**5**	–
Hire purchase agreement denominated in ZAR*	Monthly instalments ending August 2020	South African prime plus 3,00%	**32**	
Interest bearing borrowings			**3 304**	3 063
Interest outstanding on interest-bearing borrowings**			**5**	3
Classified as Held for Sale – transferred out			**(22)**	–
Total interest-bearing borrowings			**3 287**	3 066

* *These borrowings and other liabilities are finance leases.*
** *Interest outstanding in the current year relates to finance leases.*
*** *Backed by a bank guarantee*
**** *Secured by cash collateral in South Africa*

Subsequent to year end, the Group entered into two lending facility agreements (refer to *note 50: Events after reporting period and pending transactions*) comprising:

- A revolving credit facility of R253 million repayable on 30 September 2020 with an implied interest rate of 13,99%; and
- A term loan facility of R207 million repayable on 30 June 2020 at an interest rate of JIBAR plus 5,02%.

22. BORROWINGS AND OTHER LIABILITIES continued

22.2 Borrowings held at amortised cost continued

	2018 Rm	2017 Rm
Finance lease liabilities are payable as follows*:		
Minimum lease payments due		
– within one year	**149**	206
– in two to five years	**191**	184
Less: future finance charges	**(25)**	(38)
Present value of minimum lease payments	**315**	352

** Includes finance lease liabilities of R22 million classified as Held for Sale.*

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

The total asset-based finance facilities amounted to AUD21 million (2017: AUD6 million). The amount outstanding on these facilities as at year end was AUD14 million (2017: AUD3 million) and is equivalent to R142 million (2017: R31 million). These asset-based arrangements were secured by plant and equipment with a net carrying amount of R75 million (2017: R52 million).

The *Mining* operating segment entered into various asset-based finance lease agreements to purchase operating equipment denominated both in USD and ZAR. These arrangements are secured by the assets for which the funding was provided and are repayable in monthly and quarterly instalments with the final repayment to be made in August 2022. The total amount outstanding on these facilities amounted to R133 million (2017: R317 million). Equipment with a net carrying amount of R231 million (2017: R494 million) has been pledged as security for the facility.

The *Mining* and *Manufacturing and Processing* operating segments entered into various vehicle lease arrangements. Equipment with the net carrying amount of R20 million (2017: R3 million) has been pledged as security.

22.3 Convertible bonds

	Convertible bond liability Rm	Convertible bond equity reserve Rm	Total Rm
2018			
Opening balance	**1 823**	**268**	**2 091**
Coupon bi-annual payment	**(145)**	**–**	**(145)**
Interest determined with the effective interest rate*	**251**	**–**	**251**
Accrual of coupon interest for convertible bond	**145**	**–**	**145**
Unwinding of liability owing to:			
– Transaction costs capitalised	**9**	**–**	**9**
– Effect of fair value adjustment of derivative liability	**8**	**–**	**8**
– Effect of fair value of conversion option	**89**	**–**	**89**
	1 929	**268**	**2 197**

** Interest on convertible bond*

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22. BORROWINGS AND OTHER LIABILITIES continued

22.3 Convertible bonds continued

	Convertible bond liability Rm	Convertible bond equity reserve Rm	Total Rm
2017			
Opening balance	1 731	268	1 999
Coupon bi-annual payment	(145)	–	(145)
Interest determined with the effective interest rate*	237	–	237
Accrual of coupon interest for convertible bond	145	–	145
– Transaction costs capitalised	8	–	8
– Effect of fair value adjustment of derivative liability	6	–	6
– Effect of fair value of conversion option	78	–	78
	1 823	268	2 091

* *Interest on convertible bond.*

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

Refer to *note 50: Events after the reporting period and pending transactions* for detail regarding the early bond redemption of convertible bond.

23. PAYABLES OTHER THAN CONTRACT-RELATED

	Opening balance Rm	Utilised Rm	Unwinding of discount Rm	Total Rm
Reconciliation of payables other than contract-related				
2018				
Payables other than contract-related	**154**	**(21)**	**13**	**146**
2017				
Payables other than contract-related	165	(21)	10	154

	2018 Rm	2017 Rm
Current liabilities	**21**	21
Non-current liabilities	**125**	133
	146	154

South African government settlement

Following an extensive period of negotiation in prior years, the South African government and the participating construction companies concluded a settlement agreement which addressed outstanding legacy issues and a commitment to a plan which ensures the repositioning of the South African construction sector. All parties to the settlement agreement acknowledged the need to foster a better relationship between the government and the construction industry going forward.

24. TRADE AND OTHER PAYABLES

	2018 Rm	2017 Rm
Trade payables	**2 502**	2 604
Sub-contractors	**412**	269
Accrued expenses	**2 222**	2 302
Income received in advance	**–**	107
Promissory notes	**585**	627
	5 721	5 909
Classified as Held for Sale – transferred out	**(2 763)**	–
	2 958	5 909

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

Promissory notes are issued by the Group to manage working capital levels and do not represent funding facilities and are accounted for as trade payables. These promissory notes bear interest between a range of 12,49% and 15,55% per annum (2017: 10,84% and 16,04% per annum). Terms vary in accordance with contracts of supply and service but are generally settled on 60 to 61 day terms.

The carrying amounts of trade and other payables approximate their fair values due its short-term maturity.

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25. EMPLOYEE-RELATED PAYABLES

IFRS 2 Share-based payment obligation

Share-based payment obligations comprise cash-settled options for executives and senior employees. The cost of cash-settled transactions is measured initially at fair value at the grant date using an adjusted binomial option pricing model taking into account the terms and conditions upon which the instruments were granted. This fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is remeasured at each reporting date up to and including the settlement date with changes in fair value recognised in earnings. Refer to *note 27: Share-based payments*.

Employee entitlements

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

Leave pay benefits

Leave pay benefits are amounts due to employees for accumulated leave balances, the timing of which is uncertain at year end. The discounting element of these obligations was realised through profit or loss in the current year.

	2018 Rm	2017 Rm
Total employee-related payables	**713**	813
Classified as Held for Sale – transferred out	**(212)**	–
	501	813
Non-current	**248**	312
Current	**253**	501
	501	813

	Opening balance Rm	**Recognised/ (reversed) in earnings or loss Rm**	**Utilised Rm**	**Currency adjustment Rm**	**Unwinding of discount Rm**	**Total Rm**
Reconciliation of employee-related payables – 2018						
IFRS 2 – Share-based payment obligation	**22**	**(15)**	**(4)**	**–**	**–**	**3**
Employee entitlements	**452**	**86**	**(181)**	**1**	**–**	**358**
Leave pay benefits	**339**	**46**	**(61)**	**–**	**28**	**352**
	813	**117**	**(246)**	**1**	**28**	**713**

	Opening balance Rm	Recognised/ (reversed) in earnings or loss Rm	Utilised Rm	Currency adjustment Rm	Unwinding of discount Rm	Total Rm
Reconciliation of employee-related payables – 2017						
IFRS 2 – Share-based payment obligation	*	25	(3)	–	–	22
Employee entitlements	535	134	(210)	(7)	–	452
Leave pay benefits	403	121	(146)	(26)	(13)	339
	938	280	(359)	(33)	(13)	813

** Less than R1 million*

26. EQUITY-SETTLED SHARE-BASED PAYMENT RESERVE

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

Details of awards made are disclosed in *note 46: Directors' emoluments and interests*.

	2018 Rm	2017 Rm
Opening balance	**31**	19
Equity-settled share-based payment expense	**8**	12
	39	31

27. SHARE-BASED PAYMENTS

27.1 Cash-settled share-based payment plan

27.1.1 Share option plan

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

The movements during the year under review were as follows:

	2018 Weighted average exercise price	**2018 Number of options**	2017 Weighted average exercise price	2017 Number of options
Opening balances	**38,92**	**1 916 585**	39,10	2 052 606
Options exercised*	**–**	**–**	–	–
Options forfeited / cancelled	**38,92**	**(1 916 585)**	40,45	(136 021)
	–	**–**	38,92	1 916 585
Number of exercisable options and exercise price at year end	**–**	**–**	38,92	1 916 585

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

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

Notes to the consolidated financial statements continued

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27. SHARE-BASED PAYMENTS continued

27.1

27.1.1 Share option plan continued

The options outstanding at 30 June 2018 become unconditional between the following vesting dates:

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

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

The Aveng Limited Share Purchase Trust (the Trust) will be funded out of its own resources, and/or loans to be made by Group companies that employ participants in accordance with the provisions of section 44 of the Companies Act 71 of 2008 (as amended) of South Africa. The Trust held 6 018 386 ordinary shares at 30 June 2018 (2017: 6 018 386 ordinary shares).

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

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

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

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

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

- Three to 12 month rates on forward rate agreements (FRAs); and
- One to ten year swap rates.

27.1.2 Share Appreciation Rights Plan (SARs)

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

27. SHARE-BASED PAYMENTS continued

27.1 Cash-settled share-based payment plan continued

27.1.2 Share Appreciation Rights Plan (SARs) continued

The movements during the year under review were as follows:

	2018 Weighted average exercise price	2018 Number of options	2017 Weighted average exercise price	2017 Number of options
Opening balances	20,89	4 423 340	26,76	13 678 603
Options forfeited / cancelled	20,89	(4 423 340)	28,89	(9 255 263)
	–	–	20,89	4 423 340

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

The options outstanding as at 30 June 2018

Grant date	Vesting period	Expiry date	Subscription price R	Number of SARs 2018*	Number of SARs 2017
27 August 2014	27 August 2017 and 27 August 2019	27 August 2021	23,94	–	867 500
9 September 2014	9 September 2017 and 9 September 2019	9 September 2021	22,63	–	243 040
5 November 2014	5 November 2017 and 5 November 2019	5 November 2021	20,75	–	3 312 800
				–	4 423 340

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

All uninvested rights will be forfeited should the holder resign from a group company prior to the vesting dates.

For details of obligations raised with regard to the cash-settled share-based payment plan, refer to *note 25: Employee-related payables.*

27.1.3 Conditional share plan

Due to Aveng Limited being in a closed, cautionary or prohibited period since December 2015, the Aveng Remuneration and Nomination Committee was unable to make normal annual awards under the newly approved LTIP. In light of recognising the importance of retaining critical leadership talent to the future success of Aveng, and ensuring that employees remain incentivised to achieve target performance, Aveng took advice from its advisers and sponsor and considered industry practice to determine an appropriate alternative to the LTIP awards.

On this basis, the committee decided to make cash-settled conditional share awards to certain selected executive and senior employees. The design principles of the cash-settled conditional share plan mirror those of the approved LTIP scheme, with the only exception that the plan is settled in cash. Vesting of the performance awards are subject to the satisfaction of a performance condition, which is the same as the approved LTIP, measured over the performance period of three years.

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

Notes to the consolidated financial statements continued

for the year ended 30 June 2018

27. SHARE-BASED PAYMENTS continued

27.1 Cash-settled share-based payment plan continued

27.1.2 Share Appreciation Rights Plan (SARs) continued

The outstanding awards at 30 June 2018 are as follows:

Grant date*	Vesting period	Number of awards 2018	Number of awards 2017
15 August 2016	15 August 2017 – 15 August 2019	**128 656**	366 597
19 September 2016	18 September 2019	**5 275 000**	9 558 333
1 December 2016	30 November 2019	**–**	100 000
4 April 2017	3 April 2020	**50 000**	50 000
1 June 2017	31 May 2020	**75 000**	75 000
		5 528 656	10 149 930

** Awards have vested and were forfeited in the current period.*

27.2 Equity-settled share-based payment plan

27.2.1 Forfeitable Share Plan

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

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

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

	2018 Number of shares	2017 Number of shares
The movements during the year were as follows:		
Opening balance	**4 730 181**	5 183 072
Shares forfeited*	**(2 464 981)**	(452 891)
	2 265 200	4 730 181
Average purchase price of shares granted to participant (R)	**–**	–
Total value of shares granted to participants (Rm)	**–**	–

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

		2018	2017
28.	**POST-EMPLOYMENT BENEFITS**		
	Defined contribution plan		
	Aveng Group and industry retirement plans*	**9 241**	10 628
	McConnell Dowell Corporation Limited plan*	**2 053**	1 791
	Number of covered employees	**11 294**	12 419
	Employees not covered*	**2 864**	2 413
	Total number of employees	**14 158**	14 832
	Cover ratio	**79,8%**	83,7%
	The Group's retirement expense (Rm)	**347**	332

** Number of employees*

Defined benefit plan

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

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

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

		2018 Rm	2017 Rm
29.	**REVENUE**		
	Construction contract revenue	**22 224**	16 010
	Sale of goods	**7 036**	7 323
	Other revenue	**1 232**	19
	Transport revenue	**88**	104
		30 580	23 456
30.	**COST OF SALES**		
	Operating lease charges – premises	**139**	147
	Earnings from contract-related property, plant and equipment	**(83)**	(132)
	Depreciation of property, plant and equipment	**643**	600
	Employee cost	**6 056**	5 359
	Employee benefits	**140**	140
	Materials	**8 005**	9 789
	Sub-contractors	**7 826**	6 822
	Other	**6 056**	3 866
		28 782	26 591
31.	**OTHER EARNINGS**		
	Dividends received	**6**	8
	Discount received	**104**	113
	Foreign exchange gains*	**(60)**	(45)
	Fair value adjustments	**–**	56
	Rent received	**16**	12
	Other income	**40**	62
		106	206

** Includes gains on forward exchange contracts.*

Notes to the consolidated financial statements continued

for the year ended 30 June 2018

		2018 Rm	2017 Rm
32.	**OPERATING EXPENSES**		
	Operating lease charges	**80**	93
	Rationalisation and restructuring	**15**	12
	Depreciation of property, plant and equipment	**23**	27
	Amortisation of intangible assets	**28**	28
	Share-based payment expense	**(7)**	29
	Employee costs	**1 237**	1 335
	Employee benefits	**48**	74
	Computer costs	**130**	116
	Consulting fees	**206**	64
	Other*	**532**	527
		2 292	2 305
	** Audit and other professional fees of R65 million (2017: R62 million) are included in this item.*		
33.	**OTHER FINANCE EXPENSES**		
	Interest on other debt instruments	**376**	337
	Commitment fees and other costs	**58**	68
		434	405
34.	**TAXATION**		
	Major components of the taxation expense		
	Current		
	Local income taxation – current period	**1**	42
	Local income taxation – recognised in current taxation for prior periods	**(1)**	21
	Foreign income taxation or withholding taxation – current period	**141**	30
	Foreign income taxation or withholding taxation – recognised in the current taxation for prior periods	**9**	(2)
		150	91
	Deferred		
	Deferred taxation – current period	**283**	510
	Deferred taxation – arising from prior period adjustments	**(9)**	25
	Deferred taxation – foreign tax rate change	**2**	–
		276	535
		426	626

34. TAXATION continued

	% 2018	% 2017
Reconciliation of the taxation expense		
Effective taxation rate on earnings	**(13,8)**	(10,2)
Exempt income and capital profits	**(0,8)**	0,1
Deferred taxation asset not recognised	**25,1**	37,6
Disallowable charges*	**17,8**	1,7
Prior year adjustment	**0,0**	0,3
Foreign tax rate differential and other	**(0,3)**	(1,6)
Withholding taxation	**0,0**	0,1
	28,0	28,0

This relates mainly to the impact of the impairments of goodwill which is treated as a non-deductible expense.

South African income taxation is calculated at 28% (2017: 28%) of the taxable income for the year. Taxation in other jurisdictions is calculated at the prevailing rates.

35. EARNINGS AND HEADLINE EARNINGS PER SHARE

	2018 Number of shares	2018 Weighted average number of shares	2017 Number of shares	2017 Weighted average number of shares
Opening balance	**416 670 931**	**416 670 931**	416 670 931	416 670 931
	416 670 931	**416 670 931**	416 670 931	416 670 931
Less: Treasury shares				
Aveng Limited Share Purchase Trust	**(6 018 386)**	**(6 018 386)**	(6 018 386)	(6 018 386)
Aveng Management Company Proprietary Limited	**(788 684)**	**(4 634 228)**	(8 586 593)	(8 586 593)
Equity-settled share-based payment plan	**(13 046 763)**	**(9 201 219)**	(5 248 854)	(5 248 854)
Total treasury shares	**(19 853 833)**	**(19 853 833)**	(19 853 833)	(19 853 833)
Rights issue*	**141 939 095**	**141 939 095**	141 939 095	141 939 095
Weighted average number of shares	**538 756 193**	**538 756 193**	538 756 193	538 756 193
Add: Contingently issuable shares in terms of the equity-settled share-based payment plan	**13 046 763**	**9 201 219**	5 248 854	5 248 854
Diluted weighted average number of shares**	**551 802 956**	**547 957 412**	544 005 047	544 005 047
Note	**21**		**21**	

* *This item is in relation to the bonus element of the rights issue that was closed on 29 June 2018. The bonus element resulted due to the exercise price being less than the fair value of the share on 29 of June 2018.*

** *The convertible bonds were anti-dilutive for the years ended 30 June 2018 and 2017 and have therefore not been included in the calculation of diluted number of shares.*

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35. EARNINGS AND HEADLINE EARNINGS PER SHARE continued

	Continuing operations		Discontinued operations	
	2018 Rm	2017 Rm	**2018 Rm**	2017 Rm
Determination of diluted earnings*				
Diluted loss for the period attributable to equity holders of the parent	**(1 054)**	(6 207)	**(2 469)**	(501)
Loss per share – basic (cents)	**(195,6)**	(1 152,1)	**(458,3)**	(93,0)
Loss per share – diluted (cents)	**(192,4)**	(1 141,0)	**(450,6)**	(92,1)

** The convertible bonds were anti-dilutive for the years ended 30 June 2018 and 2017 and have therefore not been included in the calculation of diluted earnings.*

	2018		2017	
	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**		**(3 523)**		(6 708)
Impairment of goodwill	**242**	**242**	–	–
Impairment of property, plant and equipment	**888**	**661**	225	221
Impairment of intangible assets	**168**	**168**	53	53
Fair value adjustment on properties and disposal groups classified as Held for Sale	**807**	**807**	–	–
Gain on Steeledale transaction	**–**	**–**	(2)	(2)
Profit on sale of property, plant and equipment	**(47)**	**(34)**	(14)	(13)
Headline loss**		**(1 679)**		(6 449)

*** Earnings are calculated in accordance with IAS 33: Earnings per share. Headline loss is calculated in accordance with Circular 4 / 2018.*

Determination of headline loss per share				
Headline loss		**(1 679)**		(6 449)
Diluted headline loss		**(1 679)**		(6 449)
Headline loss per share – basic (cents)		**(311,6)**		(1 197,0)
Headline loss per share – diluted (cents)		**(306,4)**		(1 185,5)

		2018 Rm	2017 Rm
36.	**CASH UTILISED FROM OPERATIONS**		
	Loss before taxation from continuing operations	**(609)**	(5 449)
	Loss before taxation from discontinued operations	**(2 484)**	(664)
	Loss before taxation	**(3 093)**	(6 113)
	Finance earnings	**(246)**	(198)
	Finance expenses	**685**	642
	Dividend earnings	**(7)**	(8)
	Share of loss / (earnings) from equity-accounted investments	**13**	(4)
		(2 648)	(5 681)
37.	**NON-CASH AND OTHER MOVEMENTS**		
	Earnings from disposal of property, plant, equipment and vehicles	**(129)**	(147)
	Gain on Steeledale transaction	**–**	(2)
	Impairment loss on goodwill, intangible assets and property, plant and equipment	**1 298**	278
	Impairment loss on equity-accounted investments	**195**	–
	Fair value adjustment on properties and disposal groups classified as Held for Sale	**807**	-
	Unrealised foreign exchange losses on borrowings and other liabilities	**3**	–
	Other fair value adjustments	**–**	(56)
	Movements in foreign currency translation	**(11)**	(562)
	Movement in equity-settled share-based payment reserve	**8**	12
	Other non-cash items	**6**	–
	Claims write-down	**–**	4 967
		2 177	4 490
38.	**FINANCE EXPENSES PAID**		
	Amount charged to the statement of comprehensive earnings	**(685)**	(642)
	Movement in finance expenses unpaid	**153**	111
		(532)	(531)
39.	**FINANCE EARNINGS RECEIVED**		
	Amount charged to the statement of comprehensive earnings	**246**	198
	Movement in finance expenses unpaid	**(2)**	17
		244	215

Notes to the consolidated financial statements continued

for the year ended 30 June 2018

		Note	2018 Rm	2017 Rm
40.	**TAXATION PAID**			
	Amounts overpaid / (unpaid) at the beginning of the period		**61**	(106)
	Amounts charged to the statement of comprehensive earnings – normal tax	34	**(150)**	(91)
	Amounts overpaid at the end of the period		**(39)**	(61)
	Amounts relating to foreign currency translation movement		**33**	76
			(95)	(182)
41.	**DIVIDENDS PAID**			
	Dividends to non-controlling interest*		**(1)**	(3)
			(1)	(3)

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

42. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Opening balance Rm	Net cash flow movement Rm	Unrealised foreign exchange (gains) / losses Rm	Classified as Held for Sale – transferred out Rm	Other non-cash movements Rm	Closing balance Rm
2018						
Interest-bearing loans and borrowings (including finance lease liabilities excluding the convertible bond liability)	**1 243**	**134**	**3**	**(22)**	**–**	**1 358**
Convertible bond liability*	**1 823**	**–**	**–**	**–**	**106**	**1 929**
	3 066	**134**	**3**	**(22)**	**106**	**3 287**
Note			37	20		
Current portion of total borrowings and other liabilities						**599**
Non-current portion of total borrowings and other liabilities						**2 688**
						3 287
2017						
Interest-bearing loans and borrowings (including finance lease liabilities excluding the convertible bond liability)	1 251	(25)	17	–	–	1 243
Convertible bond liability*	1 731	–	–	–	92	1 823
	2 982	(25)	17	–	92	3 066
Current portion of total borrowings and other liabilities						1 121
Non-current portion of total borrowings and other liabilities						1 945
						3 066

** Refer to note 22.3: Borrowing and other liabilities – Convertible bonds for the detail disclosure of items relating to the convertible bond liability.*

	2018 Rm	2017 Rm
43. COMMITMENTS		
Authorised capital expenditure		
– Contracted	**62**	187
– Authorised, but not contracted	**–**	9
Total capital expenditure	**62**	196
It is anticipated that this expenditure will be in respect of capital equipment which will be financed from existing cash or borrowing facilities.		
Operating leases commitments		
The future minimum lease payments under non-cancellable operating leases are as follows:		
– within one year	**372**	333
– in second to fifth year inclusive	**1 014**	892
– later than five years	**780**	948
	2 166	2 173
44. CONTINGENT LIABILITIES		
Contingent liabilities at the reporting date, not otherwise provided for in the consolidated financial statements, arise from performance bonds and guarantees issued in:		
South Africa and rest of Africa		
Guarantees and bonds (ZARm)	**2 155**	3 014
Parent company guarantees (ZARm)	**509**	507
	2 664	3 521
Australasia and Asia		
Guarantees and bonds (AUDm)	**287**	326
Parent company guarantees (AUDm)	**337**	588
	624	914

Claims and legal disputes in the ordinary course of business

The Group is, from time to time, involved in various claims and legal proceedings arising in the ordinary course of business. The Board does not believe that adverse decisions in any pending proceedings or claims against the Group will have a material adverse effect on the financial position or future operations of the Group. Provision is made for all liabilities which are expected to materialise and contingent liabilities are disclosed when the outflows are probable.

Contingent assets

In the prior period, a counter claim against the Group was awarded to Kenmare Resources to the value of R150 million for Professional Indemnity insurance. The Group has lodged a claim against the insurer to recover this amount.

Notes to the consolidated financial statements continued

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45. DISPOSAL OF ASSETS AND LIABILITIES

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

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

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

Transaction costs incurred relating to this transaction amounts to R11 million that was capitalised to the equity-accounted investment. Refer *note 12: Equity-accounted investments*

46. DIRECTORS' EMOLUMENTS AND INTERESTS

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

Executive directors

	Year	Salary[1] R'000	Retirement fund[2] R'000	Statutory termination payments[3] R'000	Other payments[4] R'000
EK Diack(SA)[11]	**2018**	**6 698**	**–**	**–**	**–**
	2017	–	–	–	–
HJ Verster (SA)[12]	**2018**	**1 537**	**66**	**2 709**	**5 660**
	2017	6 003	258	–	–
JJA Mashaba (SA)	**2018**	**4 044**	**198**	**–**	**–**
	2017	3 838	188	–	–
AH Macartney (SA)	**2018**	**3 929**	**198**	**–**	**–**
	2017	3 699	232	–	–

[1] *Salary for South African Directors is total fixed earnings inclusive of contributions towards medical aid, admin & risk benefit expenses, accident cover and vehicle benefits, all of which is funded from the Directors' Total Guaranteed Package (TGP).*
[2] *Retirement fund contributions are also funded from the Directors' TGP.*
[3] *Statutory termination payments include leave pay and notice pay.*
[4] *Other payments relating to termination.*
[5] *Cash incentive payments made in relation to 2018 Special Incentive Award for JJA Mashaba and AH Macartney. Incentive payment made to EK Diack as per contractual obligation.*
[6] *Vested Cash-Settled Conditional Share Plan Awards (FY16 Award).*
[7] *No STI for the 2017 / 2018 period will be paid based on performance.*
[8] *MTI paid in March 2017 in respect of previous years' awards. The Scheme was discontinued from the 2015/2016 financial year.*
[9] *As announced on SENS, the Executive Directors' on market sale of letters of allocation.*
[10] *The Total reflected includes all cash payments made to the Executive Director in the Financial Year. The Single Figure of Remuneration reflected in Part 3 of the Remuneration Report will differ based on the requirements of King IV™*.*
[11] *EK Diack Appointed as Executive Chairman on 23 August 2017.*
[12] *HJ Verster resigned with effect from 22 September 2017 and his exit arrangements were agreed and included in a settlement agreement signed at that time by the parties. Included in the agreement is a provision for a clawback. The agreement is subject to a dispute between the parties. The amounts included in the remuneration report and already paid out cannot therefore be regarded as final.*

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Cash incentive payments[5] R'000	Cash settled CSP[6] R'000	Short-term incentive (STI)[7] R'000	Medium-term incentive (MTI)[8] R'000	Rights offer[9] R'000	Total[10] R'000
4 204	**–**	**–**	**–**	**–**	**10 902**
–	–	–	–	–	–
–	**2 469**	**–**	**–**	**–**	**12 441**
–	–	1 292	127	–	7 680
672	**68**	**–**	**–**	**3 034**	**8 016**
–	–	395	107	–	4 528
658	**64**	**–**	**–**	**3 021**	**7 870**
1 500	–	396	–	–	5 827

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for the year ended 30 June 2018

46. DIRECTORS' EMOLUMENTS AND INTERESTS continued

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

	Date from which exercisable	Date on which expires	Strike price R	Number entitled to at 1 July 2017	Number granted during the year	Number redeemed or taken up or forfeited during the year	**Number entitled to at 30 June 2018**
HJ Verster[1]	Sept 2012	Sept 2020	37,70	66 246	–	66 246	**–**
	Sept 2013	Sept 2020	37,70	66 246	–	66 246	**–**
	Sept 2014	Sept 2020	37,70	66 246	–	66 246	**–**
	Sept 2015	Sept 2020	37,70	66 249	–	66 249	**–**
				264 987	–	264 987	**–**
JJA Mashaba[2]	Sept 2009	Sept 2017	54,84	38 750	–	38 750	**–**
	Sept 2010	Sept 2017	54,84	38 750	–	38 750	**–**
	Sept 2011	Sept 2017	54,84	38 750	–	38 750	**–**
	Sept 2012	Sept 2017	54,84	38 750	–	38 750	**–**
	Oct 2010	Oct 2018	42,80	39 816	–	39 816	**–**
	Oct 2011	Oct 2018	42,80	39 816	–	39 816	**–**
	Oct 2012	Oct 2018	42,80	39 816	–	39 816	**–**
	Oct 2013	Oct 2018	42,80	39 816	–	39 816	**–**
	Sept 2011	Sept 2019	40,30	17 314	–	17 314	**–**
	Sept 2012	Sept 2019	40,30	17 314	–	17 314	**–**
	Sept 2013	Sept 2019	40,30	17 314	–	17 314	**–**
	Sept 2014	Sept 2019	40,30	17 316	–	17 316	**–**
	Sept 2012	Sept 2020	37,70	18 486	–	18 486	**–**
	Sept 2013	Sept 2020	37,70	18 486	–	18 486	**–**
	Sept 2014	Sept 2020	37,70	18 486	–	18 486	**–**
	Sept 2015	Sept 2020	37,70	18 486	–	18 486	**–**
				457 466	–	457 466	**–**

[1] Share options forfeited in terms of the rules of the scheme.
[2] As these options were deeply underwater, the Company, with mutual consent from participants, cancelled all outstanding options.

46. DIRECTORS' EMOLUMENTS AND INTERESTS continued

Non-executive directors

	Directors' fees R'000	Chairman fees R'000	Committee fees R'000	Other fees[1] R'000	Total R'000
2018					
EK Diack[2]	**165**	**72**	**103**	**–**	**340**
PJ Erasmus[3]	**330**	**108**	**259**	**–**	**697**
MA Hermanus	**716**	**327**	**–**	**–**	**1 043**
MJ Kilbride	**773**	**–**	**348**	**–**	**1 121**
T Mokgosi-Mwantembe[4]	**193**	**54**	**93**	**–**	**340**
MI Seedat[5]	**221**	**47**	**384**	**–**	**652**
K Mzondeki[6]	**761**	**162**	**396**	**–**	**1 319**
SJ Flanagan	**744**	**–**	**652**	**278**	**1 674**
	3 903	**770**	**2 235**	**278**	**7 186**
PA Hourquebie (£)[7]	**107**	**–**	**38**	**–**	**145**
2017					
AWB Band[8]	76	–	65	–	141
EK Diack	339	311	524	230	1 404
PJ Erasmus	339	210	284	–	833
MA Hermanus	339	182	18	–	539
MJ Kilbride	339	–	305	–	644
T Mokgosi-Mwantembe	339	156	110	–	605
MI Seedat	339	818	875	303	2 335
K Mzondeki	339	–	267	–	606
SJ Flanagan	339	–	372	78	789
	2 788	1 677	2 820	611	7 896
PA Hourquebie (£)	53	–	17	5	75

[1] *Other fees relate to attendance at subsidiary board meetings and extraordinary services rendered.*
[2] *EK Diack appointed Executive Chairman on 23 August 2017.*
[3] *PJ Erasmus passed away 4 February 2018.*
[4] *TM Mokgosi-Mwantembe resigned 24 November 2017.*
[5] *MI Seedat resigned 24 November 2017.*
[6] *KW Mzondeki appointed Lead Independent Director 23 August 2017.*
[7] *PA Hourquebie fees disclosed in British Pounds (£).*
[8] *AWB Band retired 19 August 2016.*

Annual review of non-executive directors' fees

Management submits annually, to the remuneration and nomination committee a proposal for the review of non-executive director fees. This proposal includes benchmarks from a minimum of two non-executive director remuneration surveys, as well as extracts and benchmarking data from annual reports of at least five medium businesses within the same industry sector. A comparison of the current and proposed fees against the market surveys and benchmarks informs the appropriate fee recommended by management. The services of independent remuneration consultants may also be used to obtain independent benchmarks for non-executive directors' fees. The remuneration committee resolved not to increase non-executive directors' fees for the year under review.

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

Notes to the consolidated financial statements continued

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46. DIRECTORS' EMOLUMENTS AND INTERESTS continued

Interest of directors of the Company in share capital

	Ordinary shares 2018	Ordinary shares 2017
Executive directors		
EK Diack	**–**	–
AH Macartney	**–**	–
JJA Mashaba	**89 661**	89 661
HJ Verster[1]	**–**	105 800
	89 661	195 461
Non-executive directors		
AWB Band[2]	**–**	20 000
MJ Kilbride	**10 000**	10 000
PK Ward	**–**	10 000
	10 000	40 000
	99 661	235 461

[1] Resigned effective 22 September 2017.
[2] AWB Band retired 19 August 2016.

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

	Date from which exercisable	Date on which expires	Strike price R	Number entitled to at 1 July 2017	Number granted during the year	Number redeemed or taken up or forfeited during the year[1]	**Number entitled to at 30 June 2018**
HJ Verster	Aug 2017	Aug 2021	23,94	72 266	–	72 266	**–**
	Aug 2018	Aug 2021	23,94	72 266	–	72 266	**–**
	Aug 2019	Aug 2021	23,94	72 268	–	72 268	**–**
				216 800	–	216 800	**–**
JJA Mashaba	Aug 2017	Aug 2021	23,94	63 566	–	63 566	**–**
	Aug 2018	Aug 2021	23,94	63 566	–	63 566	**–**
	Aug 2019	Aug 2021	23,94	63 568	–	63 568	**–**
				190 700	–	190 700	**–**
AH Macartney	Sep 2017	Sep 2021	22,63	81 013	–	81 013	**–**
	Sep 2018	Sep 2021	22,63	81 013	–	81 013	**–**
	Sep 2019	Sep 2021	22,63	81 014	–	81 014	**–**
				243 040	–	243 040	**–**

[1] In light of the performance condition not being satisfied, the SARs reported were automatically forfeited in terms of the rules of the scheme.

46. DIRECTORS' EMOLUMENTS AND INTERESTS continued

Forfeitable shares – Old Scheme (Discontinued in 2015)

	Date from which exercisable	Number entitled to at 1 July 2017	Number granted during the year	Number redeemed or taken up during the year	Number forfeited during the year[1]	**Number entitled to at 30 June 2018**
HJ Verster	Sep 2018	768 400	–	–	768 400	**–**
		768 400	–	–	768 400	**–**
JJA Mashaba	Aug 2017	143 367	–	–	143 367	**–**
	Sep 2018	372 800	–	–	–	**372 800**
		516 167	–	–	143 367	**372 800**
AH Macartney	Sep 2017	44 189	–	–	44 189	**–**
	Sep 2018	391 000	–	–	–	**391 000**
		435 189	–	–	44 189	**391 000**

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

Cash-Settled Conditional Shares (CSPs)

	Date from which exercisable	Number entitled to at 1 July 2017	Number granted during the year[1]	Number redeemed or taken up during the year	Number forfeited during the year	**Number entitled to at 30 June 2018**
HJ Verster	Aug 2017	33 310		33 310	–	**–**
	Aug 2018	33 310		33 310	–	**–**
	Aug 2019	33 310		33 310	–	**–**
	Sep 2019	2 708 333		1 805 555	902 778	**–**
		2 808 263		1 905 485	902 778	**–**
JJA Mashaba	Aug 2017	17 544		17 544	–	**–**
	Aug 2018	17 544		–	–	**17 544**
	Aug 2019	17 544		–	–	**17 544**
	Sep 2019	1 000 000		–	–	**1 000 000**
		1 052 632		17 544	–	**1 035 088**
AH Macartney	Aug 2017	16 374		16 374	–	**–**
	Aug 2018	16 374		–	–	**16 374**
	Aug 2019	16 375		–	–	**16 375**
	Sep 2019	400 000		–	–	**400 000**
		449 123		16 374	–	**432 749**

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46. DIRECTORS' EMOLUMENTS AND INTERESTS continued

Long-term Incentive Plan (LTIP)

	Date from which exercisable	Number entitled to at 1 July 2017	Number granted during the year[1]	Number redeemed or taken up during the year	Number forfeited during the year	**Number entitled to at 30 June 2018**
JJA Mashaba	Dec 2018	–	41 965	–	–	**41 965**
	Dec 2019	–	41 965	–	–	**41 965**
	Dec 2020	–	1 349 218	–	–	**1 349 218**
		–	1 433 148	–	–	**1 433 148**
AH Macartney	Dec 2018	–	42 124	–	–	**42 124**
	Dec 2019	–	42 124	–	–	**42 124**
	Dec 2020	–	1 323 142	–	–	**1 323 142**
		–	1 407 390	–	–	**1 407 390**

[1] *In line with the Aveng LTIP as approved in 2015 and awarded as part of the 2018 special incentive scheme.*

Prescribed officers and other key management personnel

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

	Year	**Salary[1] R'000**	**Retirement fund[2] R'000**	**Statutory termination payments[3] R'000**	**Other payments[4] R'000**
LS Letsoalo[11]	**2018**	**1 237**	**119**	**182**	**–**
	2017	3 162	238	–	–
HA Aucamp	**2018**	**3 373**	**170**	**–**	**–**
	2017	3 308	167	–	–
S White	**2018**	**3 622**	**275**	**–**	**–**
	2017	3 335	252	–	–
B Mdlalose[12]	**2018**	**738**	**32**	**–**	**–**
	2017	–	–	–	–
C Botha[13]	**2018**	**1 139**	**47**	**175**	**1 169**
	2017	3 410	181	–	–
S Cummins (Aus)[14]	**2018**	**1 084**	**157**	**–**	**400**
	2017	1 064	154	–	400

[1] *Salary for South African Prescribed Officers is total fixed earnings inclusive of contributions towards medical aid, admin & risk benefit expenses, accident cover and vehicle benefits, all of which is funded from the Prescribed Officers' Total Guaranteed Package (TGP).*
[2] *Retirement fund contributions are also funded from the Prescribed Officer's TGP.*
[3] *Statutory termination payments include leave and notice pay.*
[4] *Other payments relating to termination of employment for C Botha.*
[5] *Cash incentive payments made in relation to 2018 Special Incentive Award for S White and B Mdlalose.*
[6] *Vested Cash-Settled Conditional Share Plan Awards (FY16 Award).*
[7] *STI for the 2017/2018 period.*
[8] *MTI paid in March 2018 in respect of previous years' awards. The Scheme was discontinued from the 2015/2016 financial year.*
[9] *The Prescribed Officers on market sale of letters of allocation.*
[10] *The Total reflected includes all cash payments made to the Prescribed Officers in the Financial Year. The Single Figure of Remuneration reflected in Part 3 of the Remuneration Report will differ based on the requirements of King IV.*
[11] *LS Letsoalo resigned 31 October 2017.*
[12] *B Mdlalose appointed as Grinaker-LTA Managing Director on 12 March 2018. Amount reflected for the period 12 March to 30 June 2018.*
[13] *C Botha terminated 30 September 2017.*
[14] *S Cummins earnings disclosed in AUD'000. Salary amount includes vehicle benefits allowance. Other payment related to his appointment award. The appointment award is paid in three equal tranches, this being the second tranche. The remaining tranche will be paid in July 2018.*

Cash incentive payments[5] R'000	Cash settled CSP[6] R'000	Short-term incentive (STI)[7] R'000	Medium-term incentive (MTI)[8] R'000	Rights offer[9] R'000	Total[10] R'000
–	**–**	**–**	**–**	**–**	**1 538**
–	–	–	302	–	3 702
100	**73**	**–**	**–**	**461**	**4 177**
1 500	–	–	–	–	4 975
637	**46**	**–**	**275**	**494**	**5 349**
–	–	984	428	–	4 999
270	**–**	**–**	**–**	**13**	**1 053**
–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**2 530**
–	–	–	–	–	3 591
–	**–**	**–**	**–**	**–**	**1 641**
–	–	144	–	–	1 762

Notes to the consolidated financial statements continued

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47. RISK MANAGEMENT

The Group is exposed to foreign exchange, credit, liquidity and interest rate risks. The Group has developed a risk management process to facilitate, control and monitor these risks. This process includes formal documentation of policies, including limits, controls and reporting structures. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk and credit risk, and investments of excess liquidity.

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

Group treasury is responsible for monitoring currency, interest rate and liquidity risk under policies approved by the Board of directors.

The Group actively monitors the risks described below. There have been no changes in the risk management policies since the prior year.

47.1 Capital risk management

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

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

No changes were made in the objectives, policies or processes during the years ended 30 June 2018 and 30 June 2017.

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

Capital includes equity attributable to the equity-holders of the parent of R2,6 billion (2017: R6,1 billion).

The Group's strategy is to achieve the ROIC ratio at a minimum of 15%. The ROIC ratio as at 30 June 2018 and 2017 was as follows:

	2018 Rm	2017 Rm
Net operating loss less adjusted tax	**(704)**	(5 897)
Invested capital	**10 090**	8 959
ROIC ratio (%)	**(7,0)**	(65,8)

47.2 Liquidity risk

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

At year end, the Group had two revolving credit facilities, R400 million and R300 million from Absa and Nedbank respectively. Both of these were fully drawn at year end.

The Group has assessed the liquidity risk as medium. The Group remains confident that available cash resources, facilities and operating cash flows will be sufficient to meet its funding requirements. Following a restructure of the Group, Aveng Moolmans' South African operations were sold to Aveng Africa Proprietary Limited, with effect from 1 July 2017. Certain asset-based financing arrangements required consent from relevant lenders, in order to be transferred to Aveng Africa Proprietary Limited, as a group restructure was a covenant under the previous agreement. This consent was obtained during the year for all agreements, with the exception of one agreement which was completed post year end.

The maturity analysis for derivative and non-derivative financial liabilities has been included (refer to *note 47.7: Borrowing capacity*).

47. RISK MANAGEMENT continued

47.3 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. For interest rate disclosure refer to *note 22: Borrowings and other liabilities*.

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

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

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

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

Interest rate sensitivity

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

	2018 Rm	2017 Rm
Total variable borrowings	**1 036**	817
Effect on earnings after taxation – plus 50 basis points increase	**(4)**	(3)
Effect on earnings after taxation – minus 50 basis points increase	**4**	3

47.4 Credit risk

The Group's material exposure to credit risk is in its receivables (refer to *note 17: Trade and other receivables),* cash balances (refer *to note 19: Cash and bank balances)*, and amounts due from contract customers (refer to *note 16: Amounts due from contract customers)*.

Cash balances are all kept at financial institutions with a high credit rating, as determined by credit rating agencies within a credit limit policy which is subject to regular review. Cash balances per note 19 represent the maximum credit exposure.

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

Notes to the consolidated financial statements continued

for the year ended 30 June 2018

47. RISK MANAGEMENT continued

47.4 Credit risk continued

47.4.1 *Trade and other receivables*

Ageing analysis of trade receivables

	<30 days Rm	30 to 60 days Rm	60 to 90 days Rm	Past due and not impaired* Rm	Past due and impaired* Rm	Total Rm
2018						
Trade receivables	**1 055**	**71**	**58**	**32**	**56**	**1 272**
Allowance for doubtful debts	**–**	**–**	**–**	**–**	**(56)**	**(56)**
Net book value	**1 055**	**71**	**58**	**32**	**–**	**1 216**
2017						
Trade receivables	1 078	70	59	103	30	1 340
Allowance for doubtful debts	–	–	–	–	(30)	(30)
Net book value	1 078	70	59	103	–	1 310

Trade and other receivables impaired

As at 30 June 2018, trade receivables with a nominal value of R56 million (2017: R30 million) were provided for in an allowance account.

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

	2018 Rm	2017 Rm
Trade and other receivables	**1 519**	1 712
Allowance for impairment of trade and other receivables	**(56)**	(30)
	1 463	1 682
Reconciliation of allowance for impairment of trade and other receivables		
Opening balance	**30**	42
Raised during the year	**32**	8
Utilised	**(6)**	(20)
	56	30

47. RISK MANAGEMENT continued

47.4 Credit risk continued

47.4.1 Trade and other receivables continued

Trade and other receivables impaired continued

	Total past due not impaired Rm	Past due not impaired*				
		Past due up to 1 month Rm	Past due 1 – 2 months Rm	Past due 2 – 3 months Rm	Past due 3 – 4 months Rm	Past due older than 4 months Rm
2018						
Trade receivables	**32**	**23**	**1**	**2**	**2**	**4**
2017						
Trade receivables	103	24	9	4	64	2

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

47.4.2 Amounts due from / (to) contract customers

The maximum exposure to credit risk in relation to amounts due from / (to) contract customers is equal to the carrying value as presented in *note 16: Amounts due from / (to) contract customers*.

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

	<30 days Rm	30 to 60 days Rm	60 to 90 days Rm	Past due and not impaired* Rm	Past due and impaired* Rm	Total Rm
2018						
Contract and retention receivables	**2 589**	**63**	**119**	**37**	**2**	**2 810**
Provision for contract receivables	**–**	**–**	**–**	**–**	**(2)**	**(2)**
Net book value	**2 589**	**63**	**119**	**37**	**–**	**2 808**
2017						
Contract and retention receivables	3 155	47	150	57	2	3 411
Provision for contract receivables	–	–	–	–	(2)	(2)
Net book value	3 155	47	150	57	–	3 409

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

Analysis of past due accounts

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

	Total past due not impaired Rm	Past due not impaired*				
		Past due up to 1 month Rm	Past due 1 – 2 months Rm	Past due 2 – 3 months Rm	Past due 3 – 4 months Rm	Past due older than 4 months Rm
2018						
Contract and retention receivables	**37**	**1**	**4**	**4**	**9**	**19**
2017						
Contract and retention receivables	57	10	2	5	1	39

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

Notes to the consolidated financial statements continued

for the year ended 30 June 2018

47. RISK MANAGEMENT continued

47.4 Credit risk continued

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

	2018 Rm	2017* Rm
Reconciliation of provision for impairment of contract receivables		
Opening balance	**2**	2
Raised during the year	**–**	–
Utilised	**–**	–
	2	2

** Amounts less than R1 million.*

	Uncertified claims and variations Rm	Contract contingencies Rm	Contract receivables Rm	Provision for contract receivables Rm	Retention receivables Rm	Total Rm
2018						
Non-current assets	**661**	**–**	**–**	**–**	**–**	**661**
Current assets	**985**	**(490)**	**2 602**	**(2)**	**208**	**3 303**
	1 646	**(490)**	**2 602**	**(2)**	**208**	**3 964**
2017						
Non-current assets	756	–	–	–	–	756
Current assets	1 004	(701)	3 262	(2)	149	3 712
	1 760	(701)	3 262	(2)	149	4 468

47.4.3 *Credit risk mitigation and collateral*

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

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

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

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

47.5 Foreign exchange risk

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

47. RISK MANAGEMENT continued

47.5 Foreign exchange risk continued

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

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

	Closing exchange rate at 30 June	Change in year end rate Increase of 5%	Change in year end rate Decrease of 5%	Effect of an increase of 5% (Rm)	Effect of a decrease of 5% (Rm)
2018					
Australian Dollar (AUD)	**10,13**	**10,64**	**9,62**	**(35)**	**35**
United States Dollar (USD)	**13,71**	**14,40**	**13,03**	**–**	**–**
Euro (EUR)	**16,01**	**16,81**	**15,21**	**–**	**–**
Effect on earnings before taxation*				**(35)**	**35**
2017					
Australian Dollar (AUD)	10,05	10,56	9,55	(54)	54
United States Dollar (USD)	13,07	13,73	12,42	1	(1)
Euro (EUR)	14,94	15,69	14,19	3	(3)
Effect on earnings before taxation*				(50)	50

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

47.6 Foreign currency risk

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

	Notes	South African Rand Rm	Rand equivalent amount (Rm) USD	AUD*	EUR	Other	Total
2018							
Monetary assets as per the statement of financial position							
Derivative instruments – current	15	**9**	**–**	**–**	**–**	**–**	**9**
Derivative instruments – non-current	15	**–**	**–**	**–**	**–**	**–**	
Amounts due from contract customers – current	16	**984**	**18**	**2 176**	**–**	**125**	**3 303**
Amounts due from contract customers – non-current	16	**–**	**–**	**661**	**–**	**–**	**661**
Trade and other receivables	17	**1 060**	**99**	**70**	**6**	**345**	**1 580**
Cash and bank balances	19	**382**	**136**	**1 445**	**7**	**106**	**2 076**
		2 435	**253**	**4 352**	**13**	**576**	**7 629**
Monetary liabilities as per the statement of financial position							
Borrowings and other liabilities – current	22	**471**	**18**	**120**	**–**	**–**	**609**
Borrowings and other liabilities – non-current	22	**2 570**	**46**	**84**	**–**	**–**	**2 700**
Payables other than contract-related – current	23	**146**	**–**	**–**	**–**	**–**	**146**
Employee-related payables	25	**368**	**8**	**299**	**3**	**35**	**713**
Trade and other payables	24	**3 511**	**28**	**2 005**	**7**	**170**	**5 721**
Amounts due to contract customers	16	**379**	**–**	**1 098**	**–**	**12**	**1 489**
		7 445	**100**	**3 606**	**10**	**217**	**11 378**
Net exposure		**(5 010)**	**153**	**746**	**3**	**359**	**(3 749)**

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

Notes to the consolidated financial statements continued

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47. RISK MANAGEMENT continued

47.6 Foreign currency risk continued

	Notes	South African Rand Rm	Rand equivalent amount (Rm)				
			USD	AUD*	EUR	Other	Total
2017							
Monetary assets as per the statement of financial position							
Derivative instruments – current	15	2	–	–	–	–	2
Derivative instruments – non-current	15	–	–	–	–	–	–
Amounts due from contract customers							
– current	16	974	165	2 373	–	200	3 712
– non-current	16	100	–	656	–	–	756
Trade and other receivables	17	1 326	105	88	3	318	1 840
Cash and bank balances	19	373	228	1 238	5	152	1 996
		2 775	498	4 355	8	670	8 306
Monetary liabilities as per the statement of financial position							
Borrowings and other liabilities – current	22	196	44	808	–	–	1 048
Borrowings and other liabilities – non-current	22	1 905	–	113	–	–	2 018
Payables other than contract-related – current	23	154	–	–	–	–	154
Employee-related payables	25	312	100	298	–	103	813
Derivative instruments	15	17	–	–	–	–	17
Trade and other payables	24	3 130	218	2 304	6	251	5 909
Amounts due to contract customers	16	481	–	853	–	17	1 351
		6 195	362	4 376	6	371	11 310
Net exposure		(3 420)	136	(21)	2	299	(3 004)

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

47. RISK MANAGEMENT continued

47.7 Borrowing capacity

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

	2018 Rm	2017 Rm
The Group had the following undrawn facilities:		
Total borrowing facilities (includes bank overdraft facility of R706 million (2017: R556 million)	**4 160**	4 421
Current utilisation	**(3 624)**	(3 066)
Borrowing facilities available	**536**	1 355

Maturity profile of financial instruments

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

Financial instruments	Less than one year Rm	One to five years Rm	Beyond five years Rm	Total Rm
2018				
Non-derivative financial liabilities				
Interest-bearing borrowings	**632**	**3 000**	**–**	**3 632**
Amounts due to contract customers	**1 489**	**–**	**–**	**1 489**
Trade and other payables	**5 721**	**–**	**–**	**5 721**
	7 842	**3 000**	**–**	**10 842**

	Less than one year Rm	One to five years Rm	Beyond five years Rm	Total Rm
2017				
Non-derivative financial liabilities				
Interest-bearing borrowings	443	2 459	–	2 902
Amounts due to contract customers	1 351	–	–	1 351
Trade and other payables	5 909	–	–	5 909
Derivative financial liabilities				
Forward exchange contracts – Outflow	17	–	–	17
	7 720	2 459	–	10 179

Notes to the consolidated financial statements continued

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48. FAIR VALUE OF ASSETS AND LIABILITIES

The Group measures the following financial instruments at fair value:

- Infrastructure investments; and
- Forward exchange contracts (FECs).

Infrastructure investments

The Group measures its remaining infrastructure investment, Dimopoint Proprietary Limited at fair value through profit or loss. The investments in Imvelo Concession Company Proprietary Limited and Firefly Investments 238 Proprietary Limited were classified as Held for Sale in the current year – refer to *note 13: Infrastructure investments* and *note 20: Assets and liabilities classified as Held for Sale.*

(i) Dimopoint Proprietary Limited (Dimopoint)

Methodology

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

Valuation parameters and assumptions

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

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

(ii) Imvelo Concession Company Proprietary Limited (Imvelo)

Methodology

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

Valuation parameters and assumptions

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

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

(iii) Firefly Investments 238 Proprietary Limited (Firefly)

Methodology

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

Valuation parameters and assumptions

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

- In estimating the fair value of Firefly, a discount rate of 14,1% was applied;
- Free cash flows based on the underlying long-term contractual revenue streams and operating cost forecasts; and
- Long-term revenue and cost indexation (ZAR based) of 4,6% and 2,0% (EUR based) respectively.

Forward exchange contracts (FECs)

Valuation methodology

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

48. FAIR VALUE OF ASSETS AND LIABILITIES continued

Fair value hierarchy

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

	Carrying amounts Rm	Fair value Rm	Valuation reference to observable prices Level 1 Rm	Valuation based on observable inputs Level 2 Rm	Valuation based on unobservable inputs Level 3 Rm
2018					
Assets recognised at fair value					
Assets					
Infrastructure investments	**142**	**142**	**–**	**–**	**142**
Infrastructure investments (Held for Sale)	**125**	**125**	**–**	**–**	**125**
FECs	**3**	**3**	**–**	**3**	**–**
FECs (Held for Sale)	**6**	**6**	**–**	**6**	**–**

	Carrying amounts Rm	Fair value Rm	Valuation reference to observable prices Level 1 Rm	Valuation based on observable inputs Level 2 Rm	Valuation based on unobservable inputs Level 3 Rm
2017					
Assets and liabilities recognised at fair value					
Assets					
Infrastructure investments	265	265	–	–	265
Infrastructure investments (Held for Sale)	4	4	–	–	4
FECs	2	2	–	2	–
Liabilities					
FECs	17	17	–	17	–

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

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

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

Notes to the consolidated financial statements continued

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48. FAIR VALUE OF ASSETS AND LIABILITIES continued

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

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

	Significant unobservable input %	Reasonably possible changes to significant unobservable inputs %	Potential effect recorded directly in profit and loss Increase Rm	Potential effect recorded directly in profit and loss Decrease Rm
Infrastructure investments				
Risk-adjusted discount rate:				
– Dimopoint Proprietary Limited	15,0	0,5	(10)	10
Classified as Held for Sale				
– Imvelo Concessions Company Proprietary Limited	17,0	0,5	(3)	3
– Firefly Investments 238 Proprietary Limited	14,1	0,5	(2)	2

49. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

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

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

Notes to the consolidated financial statements continued

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49. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES continued

	Amounts subject to enforceable netting arrangements		
	Effects of netting on statement of financial position		
	Gross amounts Rm	Amounts set off Rm	Net amounts reported on the statement of financial position Rm
30 June 2018			
Derivative instruments	**3**	**–**	**3**
Derivative instruments – classified as Held for Sale	**6**	**–**	**6**
Cash and bank balances*	**3 037**	**646**	**2 391**
Total assets	**3 046**	**646**	**2 400**
30 June 2017			
Derivative instruments	2	–	2
Cash and bank balances*	2 406	410	1 996
Total assets	2 408	410	1 998
Derivative instruments	(17)	–	(17)
Total liabilities	(17)	–	(17)

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

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

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

Amounts subject to enforceable netting arrangements						
Related amounts not set-off						
Offsetting financial instruments Rm	Financial collateral** Rm	Net amount Rm	Amounts not subject to enforceable netting arrange-ments Rm	Total as per statement of financial position*** Rm	Current Rm	Non-current Rm
–	**–**	**3**	**–**	**3**	**3**	**–**
–	**–**	**6**	**–**	**6**	**6**	**–**
–	**–**	**2 391**	**2 391**	**2 391**	**2 391**	**–**
–	**–**	**2 400**	**2 391**	**2 400**	**2 400**	**–**
–	–	2	–	2	2	–
–	–	1 996	1 996	1 996	1 996	–
–	–	1 998	1 996	1 998	1 998	–
–	–	(17)	–	(17)	(17)	–
–	–	(17)	–	(17)	(17)	–

Notes to the consolidated financial statements continued

for the year ended 30 June 2018

50. EVENTS AFTER THE REPORTING PERIOD AND PENDING TRANSACTIONS

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

50.1 Liquidity, solvency, ongoing funding, rights issue, early redemption of convertible bond, and the going concern assertion

As included in the directors' report, and further detailed below, in determining the appropriate basis of preparation of the financial statements, the Board is required to consider whether the Group can continue in operational existence for the foreseeable future. The directors have considered the agreements reached and transactions executed post the year end, the actions taken by the Group, the financial plans and forecasts, including all available information, and are therefore of the opinion that the going concern assumption is appropriate in the preparation of the financial statements. In forming the conclusion, the directors have considered the following:

Funding from South African lending banks

The Group continuously engages with its major lending banks who currently provide various facilities to the Group under existing agreements. Refer to *note 22: Borrowings and other liabilities*. After the year end, the Group concluded a revised Common Terms Agreement with its South African lending banks. Through this process the following were negotiated:

- Renewed facilities, including additional funding of R400 million and extended funding terms to 2020;
- The profile for the repayment of capital in specific tranches takes into account the anticipated timing of receipts from disposal of non-core assets per the strategic review; and
- Ongoing compliance with financial covenants including an EBITDA covenant and a liquidity headroom covenant.

50.2 Rights offer to qualifying shareholders

The Group undertook a renounceable rights offer to raise up to R500 million, to qualifying shareholders. The rights offer consisted of 5 000 000 000 rights offer shares in the ratio of 1 199.98772 rights offer shares for every 100 Aveng ordinary shares held at the close of trade on 15 June 2018 and at a price of R0,10 per rights offer share. The total number of rights offer shares subscribed for and excess allocations applied for was 4 931 854 395 rights offer shares, representing 98,6% of the rights offer. An aggregate amount of R493 million was raised.

The rights offer shares subscribed for were issued on 2 July 2018, with excess allocation shares issued on 4 July 2018.

50.3 Early redemption of convertible bond

In terms of the strategic review, the debt levels within the Group were considered to be unsustainable, in particular the convertible bonds which created significant constraints on the Group's liquidity position. The Group redeemed the existing convertible bond on 25 September 2018 through the execution of the following:

- On 3 July 2018, the bondholders agreed to the capitalisation of interest on the bonds and voted to accept the terms of the early bond redemption on 30 August 2018;
- On 10 September 2018, the Group's shareholders passed the required resolutions giving effect to the specific issue of shares at R0,10 per share, equivalent to the rights offer price, to settle the convertible bonds;
- On 17 September 2018, a specific buyback of R657 million of the existing convertible bonds at 70% of the principal amount (a 30% discount) was completed;
- The buyback was funded by a new debt instrument of R460 million, the terms of which will rank pari passu with the bank debt (excluding Super Senior Facilities) under the revised Common Terms Agreement;
- The remaining R1,4 billion bonds were settled through the specific issue of ordinary shares at R0,10 per share on 25 September 2018;
- The Group's gross debt:equity ratio improved to 40% following this transaction.

50. EVENTS AFTER THE REPORTING PERIOD AND PENDING TRANSACTIONS continued

50.4 Sale of non-core businesses and assets

The strategic review identified the non-core business and assets to be sold to improve liquidity. The Group announced on 2 August 2018 that it had entered into agreements to sell its Jet Park and Vanderbijlpark properties for R254 million.

Jet Park property:

The Group has entered into a binding term sheet on 2 August 2018 for the sale of its Jet Park offices located in Boksburg to Equites Property Fund Limited for R211,2 million (net of commission). The Group will enter into a triple net lease on the property for a maximum of 24 months, but with the ability for the Group to terminate the lease with three months' notice and market related monthly rental of R1,1 million, subject to an annual escalation of 8%. This sale is subject to shareholder approval.

Vanderbijlpark property:

The Group has accepted an offer of R42,6 million from Stodasat (Proprietary) Limited for the Vanderbijlpark property following an auction process. The transfer is expected to be completed by 30 November 2018, subject to the conveyancing process.

The disposal process for the balance of the non-core businesses and assets remains an overriding priority in the achievement of the strategic plan and significant interest from credible buyers has been received. For most of businesses identified for sale, progress has been made ranging from expressions of interest, through to non-binding offers.

51. RELATED PARTIES

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

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

Refer to transactions with key management disclosed in *note 46: Directors' emoluments and interests*.

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

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

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

	2018 Rm	2017 Rm
Associates and joint ventures		
Loans advanced / (paid) – associates and joint ventures	**(18)**	202
Trade and other receivables – associates and joint ventures	**7**	18
Trade and other payables – associates and joint ventures	**(1)**	(1)
	(12)	219
Parent company guarantees (ZARm)	**1 288**	1 417
Parent company guarantees (AUDm)	**4 200**	4 340

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

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51. RELATED PARTIES continued

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

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

	2018 Rm	2017 Rm
Interest received from related parties	**(3)**	(13)
Management fees received from related parties	**(1)**	(1)
Rent received from related parties	**(13)**	(6)
	(17)	(20)

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

52. STRUCTURED ENTITIES

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

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

Statutory requirements

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

52.2 Unconsolidated structured entities

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

	2018 Empowerment vehicles Rm	2018 Structured investment vehicles Rm	Total Rm
Assets			
Investment in subsidiaries	**–**	**50**	**50**
Cash and bank balances	**–**	**4**	**4**
	–	**54**	**54**
Maximum exposure to loss**	**–**	**54**	**54**

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

52. STRUCTURED ENTITIES continued

52.3 Unconsolidated structured entities continued

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

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

Financial support provided or to be provided to unconsolidated structured entities

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

52.4 Sponsored entities

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

Notes to the consolidated financial statements continued

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53. GROUP OPERATING ENTITIES

Name	Country	Aveng Group effective consolidation %
Subsidiaries and consolidated structured entities		
Siyanda Steel Proprietary Limited	South Africa	100
Aimykeet Proprietary Limited	Australia	100
Andersen & Hurley Instruments (SA) Proprietary Limited	South Africa	100
Atval Proprietary Limited	South Africa	100
Aveng Proprietary Limited	Malawi	100
Aveng (Africa) Lesotho Proprietary Limited	Lesotho	100
Aveng (Africa) Proprietary Limited	South Africa	100
Aveng Australia (GCRT) Proprietary Limited	Australia	100
Aveng Australia Holdings Proprietary Limited	Australia	100
Aveng Australia Investments Proprietary Limited	Australia	100
Aveng Construction Chile Limitade	Chile	100
Aveng Grinaker-LTA Holdings Proprietary Limited	South Africa	100
Aveng Indústria E Comércio De Valvulas do Brasil / Limitada	Brasil	100
Aveng Management Company Proprietary Limited	South Africa	100
Aveng Mining DRC Société à Responsabilité Limitée	Democratic Republic of Congo	100
Aveng Moolmans Burkina Faso SA	Burkina Faso	100
Aveng Moolmans Proprietary Limited	South Africa	100
Aveng Moolmans Mauritius Limited	Mauritius	100
Aveng Mozambique Limitada	Mozambique	100
Aveng Namibia Proprietary Limited	Namibia	100
Aveng Rail Australia Proprietary Limited	Australia	100
Aveng Swazi Proprietary Limited	Swaziland	100
Aveng Trident Steel Holdings Proprietary Limited	South Africa	100
Aveng Trident Steel Proprietary Limited	South Africa	100
Aveng Water Proprietary Limited	South Africa	100
Aveng Water Australia Proprietary Limited	Australia	100
Aveng Water Treatment Proprietary Limited	Namibia	100
Aveng Zimbabwe (Private) Limited	Zimbabwe	100
Built Environs Proprietary Limited	Australia	100
Built Environs Holdings Proprietary Limited	Australia	100
Built Environs Qld Proprietary Limited	Australia	100
Built Environs WA Proprietary Limited	Australia	100
CMM Consultants Proprietary Limited	South Africa	100
Consorcio Aveng-Mas Errazuriz Société Anonyme	Chile	60
Dynamic Fluid Control Proprietary Limited	South Africa	100
Dynamic Fluid Control Water Proprietary Limited	South Africa	100
E+PC Engineering & Projects Company (Zambia) Limited	Zambia	100

53. GROUP OPERATING ENTITIES continued

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

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53. GROUP OPERATING ENTITIES continued

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

53. GROUP OPERATING ENTITIES continued

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

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

Notes to the consolidated financial statements continued

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53. GROUP OPERATING ENTITIES continued

Name	Country	Aveng Group effective consolidation %
Joint operations		
ADR Joint Venture	Swaziland	80
ADR Hilton Joint Venture	Swaziland	70
Aveng Grinaker-LTA Enza 2 Joint Venture	South Africa	50
Aveng Grinaker-LTA Enza 3 Joint Venture	South Africa	70
Aveng Grinaker-LTA Liviero Pavilion Joint Venture	South Africa	60
Aveng Trencon Joint Venture	South Africa	50
Aveng Lubocon Joint Venture	South Africa	80
Aveng Trencon Village Walk Joint Venture	South Africa	65
Northern Toll Roads Joint Venture	South Africa	50
Karrena Concor Joint Venture	South Africa	60
Karrena Concor Joint Venture	South Africa	50
Masakhane JV (R61)	South Africa	70
Medupi Power Station JV	South Africa	33
McConnell Dowell Bombardier Australia JV – Gold Coast Light Rail	Australia	70
McConnell Dowell/Fletcher Construction/Obayashi Corporation – Waterview	New Zealand	34.8
McConnell Dowell/OHL JV – K2K Road project	Australia	50
McConnell Dowell/SYS- SPJ Project	Malaysia	60
McConnell Dowell/Hebb JV – BNR Mangere Project NZ	New Zealand	60
McConnell Dowell/Hawkins JV– City Rail Link Connectus Project	New Zealand	50
McConnell Dowell/Downer JV (CSM2) and Russley Road	New Zealand	50
McConnell Dowell/Martinus Rail (Murray Basin Rail)	Australia	80
McConnell Dowell/Marina Technologies and Construction (MBS South Crystal Pavillion)	Singapore	65
McConnell Dowell / GE Betz / United Group Infrastructure (WSRW)	Australia	20
McConnell Dowell / ABI ADP (Adelaide Desalination)	Australia	50
McConnell Dowell / CCC (QCLNG)	Australia	50
McConnell Dowell / CCC (APLNG)	Australia	50
McConnell Dowell / Geosea Australia (Hay Point)	Australia	80
McConnell Dowell / Thiess (Seaford Rail)	Australia	40
McConnell Dowell / SNC-Lavalin Australia Pty Ltd (Rolleston Coal)	Australia	50
McConnell Dowell / Balfour Beatty (Springvale Rd Underpass)	Australia	65
McConnell Dowell / Downer (WTP)	Australia	50
McConnell Dowell / Lend lease JV (MLJV Pty Ltd)	Australia	50
McConnell Dowell / CCC (MC Komo)	Papua New Guinea	50
McConnell Dowell / SNC Lavalain / PB Power (Te Mihi)	New Zealand	42.5
McConnell Dowell / Fletchers / Obayashi (Waterview maintenance)	New Zealand	24.3
McConnell Dowell / Downer (CSM2)	New Zealand	50
McConnell Dowell / BAM / SYS (VALE)	Malaysia	40
McConnell Dowell / SYS (IKEA)	Malaysia	80
McConnell Dowell / SYS (Bintulu)	Malaysia	65
McConnell Dowell / SYS (SPJ)	Malaysia	65
McConnell Dowell / Kaden (Submarine Pipelines)	Hong Kong	50

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Separate statement of financial position

as at 30 June 2018

	Notes	2018 Rm	2017 Rm
ASSETS			
Non-current assets			
Investments in subsidiaries	1	**2 009**	5 208
Amounts owing by subsidiaries	3	**3 388**	1 201
		5 397	6 409
Current assets			
Amounts owing by subsidiaries	3	**–**	1 202
Other receivables		**2**	2
Cash and bank balances	4	**–**	121
		2	1 325
Total assets		**5 399**	7 734
EQUITY AND LIABILITIES			
Equity			
Share capital and share premium	5	**2 340**	2 340
Reserves		**253**	245
Retained earnings		**(285)**	3 178
		2 308	5 763
Liabilities			
Non-current liabilities			
Deferred taxation	2	**30**	61
Borrowings and other liabilities	6	**2 484**	1 678
		2 514	1 739
Current liabilities			
Amounts owing to subsidiaries	3	**73**	73
Borrowings and other liabilities	6	**265**	145
Trade and other payables	7	**24**	12
Taxation payable	15	**–**	2
Bank overdraft	4	**215**	–
		577	232
TOTAL LIABILITIES		**3 091**	1 971
TOTAL EQUITY AND LIABILITIES		**5 399**	7 734

Separate statement of comprehensive earnings

for the year ended 30 June 2018

	Notes	**2018 Rm**	2017 Rm
Other earnings		**–**	700
Operating expenses		**(215)**	(489)
Net operating (loss) / earnings	8	**(215)**	211
Reversal of loan impairment		**–**	500
Impairment / loss on de-recognition of investments		**(3 199)**	(3 343)
Other income – intercompany loan write off		**2**	–
Loss before financing transactions		**(3 412)**	(2 632)
Finance earnings	9	**279**	244
Interest on convertible bonds	6	**(251)**	(237)
Other finance expenses	10	**(112)**	(72)
Loss before taxation		**(3 496)**	(2 697)
Taxation	11	**33**	23
Loss for the period		**(3 463)**	(2 674)
Total comprehensive loss for the period		**(3 463)**	(2 674)
Results per share (cents)			
Loss – basic	12	**(642,8)**	(673,9)
Loss – diluted	12	**(632,0)**	(665,1)
Number of shares (millions)			
In issue	12	**416,7**	416,7
Weighted Average	12	**538,8**	538,8
Diluted weighted average	12	**548,0**	544,0

Separate statement of changes in equity

for the year ended 30 June 2018

	Share capital Rm	Share premium Rm	Total share capital Rm	Equity-settled share-based payment reserve Rm	Foreign currency translation reserve Rm	Convertible bond equity reserve Rm	Total reserves Rm	Retained earnings Rm	Total equity Rm
Balance at 1 July 2016	20	2 320	2 340	19	(54)	268	233	5 852	8 425
Loss for the year	–	–	–	–	–	–	–	(2 674)	(2 674)
Total comprehensive loss for the period	–	–	–	–	–	–	–	(2 674)	(2 674)
Equity-settled share-based payment charge for the period	–	–	–	12	–	–	12	–	12
Total contributions by and distribution to owners of company recognised directly in equity	–	–	–	12	–	–	12	–	12
Balance at 1 July 2017	**20**	**2 320**	**2 340**	**31**	**(54)**	**268**	**245**	**3 178**	**5 763**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3 463)**	**(3 463)**
Total comprehensive loss for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3 463)**	**(3 463)**
Equity-settled share-based payment charge	**–**	**–**	**–**	**8**	**–**	**–**	**8**	**–**	**8**
Total contributions by and distribution to owners of company recognised directly in equity	**–**	**–**	**–**	**8**	**–**	**–**	**8**	**–**	**8**
Balance at 30 June 2018	**20**	**2 320**	**2 340**	**39**	**(54)**	**268**	**253**	**(285)**	**2 308**
Note	5	5	5	13		6			

Separate statement of cash flows

for the year ended 30 June 2018

	Note	2018 Rm	2017 Rm
Operating activities			
Cash utilised from operations	14	**(3 412)**	(3 332)
Non-cash and other movements	17	**3 382**	3 314
Cash utilised by operations		**(30)**	(18)
(Increase) / decrease in other receivables		**(17)**	26
Increase / (decrease) in other payables		**9**	(9)
Total changes in working capital		**(8)**	17
Cash utilised by operating activities		**(38)**	(1)
Finance expenses paid	18	**(109)**	(214)
Finance earnings received	19	**3**	150
Taxation paid	15	**–**	–
Cash outflow from operating activities		**(144)**	(65)
Operating free cash outflow		**(144)**	(65)
Financing activities with equity holders			
(Increase) / decrease in borrowings		**675**	–
(Increase) / decrease in amounts owing by subsidiaries		**(867)**	62
Net (decrease) / increase in cash and bank balances		**(336)**	(3)
Cash and bank balances at beginning of the period		**121**	124
Total cash and bank balances at the end of the period	4	**(215)**	121
Borrowings excluding bank overdrafts	6	**2 749**	1 823
Net cash position		**(2 964)**	(1 702)

Notes to the separate financial statements

for the year ended 30 June 2018

1. INVESTMENTS IN SUBSIDIARIES

Name of company	Country	% holding 2018	2018 Rm	2017 Rm
Aveng Australia Holdings Proprietary Limited	Australia	**100,00**	**216**	216
Aveng (Africa) Proprietary Limited	South Africa	**100,00**	**1 793**	4 992
Grinaker-LTA Properties Proprietary Limited	South Africa	**100,00**	*****	*
Richtrau 191 Proprietary Limited	South Africa	**100,00**	**–**	*
Aveng Management Company Proprietary Limited	South Africa	**100,00**	*****	*
Aveng Trident Steel Holdings Proprietary Limited	South Africa	**100,00**	**–**	*
			2 009	5 208

	2018 Rm	2017 Rm
Reconciliation of investments in subsidiaries		
Opening balance	**5 208**	2 225
Purchase	**–**	6 296
Impairment	**(3 199)**	(3 313)
	2 009	5 208
Impairment		
Aveng (Africa) Proprietary Limited	**(3 199)**	(2 154)
Aveng Australia Holdings Proprietary Limited	**–**	(932)
Aveng Trident Steel Holdings Proprietary Limited	**–**	(208)
Grinaker-LTA Intellectual Property Proprietary Limited	**–**	(15)
Steelmetals Proprietary Limited	**–**	(4)
	(3 199)	(3 313)

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

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

** Amounts are less than R1 million.*

	2018 Rm	2017 Rm
2. DEFERRED TAXATION		
Balance at year end comprises		
Convertible bond	**(32)**	(61)
Assessed losses carried forward	**2**	–
	(30)	(61)
Reconciliation of deferred taxation		
At the beginning of the year	**(61)**	(84)
Transfer from statement of comprehensive earnings – current year	**31**	23
	(30)	(61)

Unused taxation losses

As at June 2018 the Company had unused taxation losses of R7 million (2017: R6 million) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the uncertainty of future taxable profits.

	2018 Rm	2017 Rm
3. AMOUNTS OWING BY / (TO) SUBSIDIARIES		
Reconciliation of amounts owing by subsidiaries		
Opening balance	**2 403**	7 931
Current year movement	**985**	(5 528)
Balance at the end of the year	**3 388**	2 403
Reconciliation of amounts owing to subsidiaries		
Opening balance	**(73)**	(48)
Current year movement	**–**	(25)
Balance at the end of the year	**(73)**	(73)
Interest-bearing loans to subsidiaries	**1 815**	1 201
Non-interest-bearing to subsidiaries	**1 573**	1 202
Non-interest-bearing from subsidiaries	**(73)**	(73)
Net amounts owing by subsidiaries	**3 315**	2 330
Non-current assets	**3 388**	1 201
Current assets	**–**	1 202
Current liabilities	**(73)**	(73)
Net amounts owing by subsidiaries	**3 315**	2 330

The total allowance for non-performing loans relating to amounts owing by subsidiaries amounted to R388 million (2017: R220 million), of which R220 million (2017: R220 million) relates to the loan to Aveng Management Company Proprietary Limited, the remaining R168 million (2017: Rnil) relates to Aveng Australia Holdings Proprietary Limited.

Refer to *note 21: Related parties*.

	2018 Rm	2017 Rm
4. CASH AND BANK BALANCES		
Cash and bank balances	**–**	121
Less: Bank overdrafts	**(215)**	–
	(215)	121

Notes to the separate financial statements continued

for the year ended 30 June 2018

		2018 Rm	2017 Rm
5.	**SHARE CAPITAL AND SHARE PREMIUM**		
	Authorised		
	180 882 034 263 (2017: 882 034 263) ordinary shares of 5 cents each	**9 044**	44
	Issued		
	Share capital (416 670 931 ordinary shares of 5 cents each)	**20**	20
	Share premium	**2 320**	2 320
	Share capital and share premium	**2 340**	2 340
	Shares held in terms of equity-settled share-based payment plan		
	– Number of shares	**13 046 763**	5 248 854
	– Market value (Rm)	**2**	31

	Number of shares	Number of shares
Reconciliation of number of shares issued		
Number of shares in issue	**416 670 931**	416 670 931
Closing balance – shares of 5 cents each	**416 670 931**	416 670 931
Less: Treasury shares held in terms of the equity-settled share-based payment plan	**(13 046 763)**	(5 248 854)
Number of shares in issue less treasury shares	**403 624 168**	411 422 077

		2018 Rm	2017 Rm
6.	**BORROWING AND OTHER LIABILITIES**		
	Held at amortised cost		
	Interest-bearing borrowings	**2 749**	1 823
	Non-current liabilities		
	At amortised cost	**2 484**	1 678
	Current liabilities		
	At amortised cost	**265**	145
	Interest rate structure		
	Fixed and variable (interest rates)		
	Fixed – long term	**1 784**	1 678
	Fixed – short term	**145**	145
	Variable – long term	**700**	–
	Variable – short term	**120**	–
		2 749	1 823

6. BORROWING AND OTHER LIABILITIES continued

Description	Terms	Rate of interest	**2018 Rm**	2017 Rm
Convertible bond of R2 billion	Interest coupon is payable bi-annually until July 2019	Coupon of 7,25%	**1 929**	1 823
Revolving credit facility	Repayable June 2020	JIBAR plus 3,00% to 5,75%	**700**	–
Super senior liquidity facility	Repayable February 2019	South African Prime plus 2,50% to 5,50%	**120**	–
Total interest-bearing borrowings			**2 749**	1 823

	Convertible bond liability Rm	**Convertible bond equity reserve Rm**	**Total Rm**
2018			
Opening balance	**1 823**	**268**	**2 091**
Coupon bi-annual payment	**(145)**	**–**	**(145)**
Interest determined with the effective interest rate*	**251**	**–**	**251**
Accrual of coupon interest for convertible bond	**145**	**–**	**145**
Unwinding of liability owing to:			
– Transaction costs capitalised	**9**	**–**	**9**
– Effect of fair value adjustment of derivative liability	**8**	**–**	**8**
– Effect of fair value of conversion option	**89**	**–**	**89**
	1 929	**268**	**2 197**
2017			
Opening balance	1 731	268	1 999
Coupon bi-annual payment	(145)	–	(145)
Interest determined with the effective interest rate*	237	–	237
Accrual of coupon interest for convertible bond	145	–	145
Unwinding of liability owing to:			
– Transaction costs capitalised	8	–	8
– Effect of fair value adjustment of derivative liability	6	–	6
– Effect of fair value of conversion option	78	–	78
	1 823	268	2 091

** Interest on convertible bond.*

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

Notes to the separate financial statements continued

for the year ended 30 June 2018

		2018 Rm	2017 Rm
7.	**TRADE AND OTHER PAYABLES**		
	Trade payables	**6**	–
	Shareholders for dividends	**5**	5
	Accrued expenses	**13**	7
		24	12
8.	**NET OPERATING LOSS**		
	Net operating loss for the year is stated after accounting for the following:		
	Auditors' remuneration – fees	**(3)**	–
	Director's fees	**(11)**	(10)
	Dividend earnings	**–**	700
	Intercompany loan receivable written off	**(17)**	(471)
	Impairment on intercompany loan	**(168)**	–
9.	**FINANCE EARNINGS**		
	Interest received on amounts owing by subsidiaries	**276**	235
	Interest received on bank balances*	**3**	9
		279	244
	** Interest earned on positive bank balances throughout the year.*		
10.	**OTHER FINANCE EXPENSES**		
	Interest on borrowings	**102**	64
	Transaction costs	**10**	8
		112	72
11.	**TAXATION**		
	Major components of the taxation expense (income)		
	Current		
	Local income taxation – recognised in current taxation for prior periods	**(2)**	–
		(2)	–
	Deferred		
	Deferred taxation – current period	**(31)**	(23)
		(31)	(23)
		(33)	(23)

Reconciliation between applicable taxation rate and effective taxation rate:	**%**	%
Applicable taxation rate	**28,00**	28,0
Prior period adjustments	**0,1**	0,0
Exempt income*	**(0,0)**	7,2
Disallowable charges*	**(27,2)**	(34,4)
Effective taxation rate for the year	**0,9**	0,8

** The items impacting the tax rate relate mainly to impairments.*

12. LOSS PER SHARE

	2018 Number of shares	2018 Weighted average number of shares	2017 Number of shares	2017 Weighted average number of shares
Opening balance	**416 670 931**	**416 670 931**	416 670 931	416 670 931
	416 670 931	**416 670 931**	416 670 931	416 670 931
Less: Treasury shares				
Aveng Limited Share Purchase Trust	**(6 018 386)**	**(6 018 386)**	(6 018 386)	(6 018 386)
Aveng Management Company Proprietary Limited	**(788 684)**	**(4 634 228)**	(8 586 593)	(8 586 593)
Equity-settled share-based payment plan	**(13 046 763)**	**(9 201 219)**	(5 248 854)	(5 248 854)
Total treasury shares	**(19 853 833)**	**(19 853 833)**	(19 853 833)	(19 853 833)
Rights issue*	**141 939 095**	**141 939 095**	141 939 095	141 939 095
Weighted average number of shares	**538 756 193**	**538 756 193**	538 756 193	538 756 193
Add: Contingently issuable shares in terms of the equity-settled share-based payment plan	**13 046 763**	**9 201 219**	5 248 854	5 284 854
Diluted weighted average number of shares in issue**	**551 802 956**	**547 957 412**	544 005 047	544 041 047
Refer to note	5		5	

	2018 Rm	2017 Rm
Determination of diluted loss		
Loss for the period attributable to equity holders of the parent	**(3 463)**	(2 674)
Diluted loss for the period attributable to equity holders of the parent*	**(3 463)**	(2 674)
Loss per share – basic (cents)	**(642,8)**	(496,3)
Loss per share – diluted (cents)	**(632,0)**	(491,5)

** This item is in relation to the bonus elements of the rights issue that was closed on the 29 June 2018.*

*** The convertible bonds were anti-dilutive for the year ended 30 June 2018 and 2017 have therefore not been included in the calculation of diluted number of shares.*

13. EQUITY-SETTLED SHARE-BASED PAYMENT

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

	2018 Rm	2017 Rm
Opening balance	**31**	19
Equity-settled share-based payment	**8**	12
	39	31

Notes to the separate financial statements continued

for the year ended 30 June 2018

13. EQUITY-SETTLED SHARE-BASED PAYMENT continued

Forfeitable share plan

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

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

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

	Number of shares 2018	Number of shares 2017
The movements during the year were as follows:		
Opening balance	**4 730 181**	5 183 072
Shares forfeited*	**(2 464 981)**	(452 891)
	2 265 200	4 730 181

** In light of the performance condition not being satisfied forfeitable shares were forfeited in terms of the scheme.*

14. CASH UTILISED FROM OPERATIONS

	2018 Rm	2017 Rm
Loss before taxation	**(3 496)**	(2 697)
Adjustments for:		
Dividend earnings	**–**	(700)
Finance earnings	**(279)**	(244)
Finance and transaction expenses	**363**	309
	(3 412)	(3 332)

		Note	2018 Rm	2017 Rm
15.	**TAXATION PAID**			
	Amounts unpaid at the beginning of the period		**(2)**	(2)
	Amounts charged to the statement of comprehensive earnings – normal tax	11	**2**	–
	Amounts unpaid at the end of period		**–**	2
			–	–

		Opening balance Rm	Net cash flow movement Rm	Unrealised foreign exchange (gains) / losses Rm	Classified as Held for Sale – transferred out Rm	Other non-cash movements Rm	Closing balance Rm
16.	**CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES**						
	2018						
	Interest-bearing loans and borrowings (including finance lease liabilities excluding the convertible bond liability)	**–**	**820**	**–**	**–**	**–**	**820**
	Convertible bond liability*	**1 823**	**–**	**–**	**–**	**106**	**1 929**
		1 823	**820**	**–**	**–**	**106**	**2 749**
	Current portion of total borrowings and other liabilities						**265**
	Non-current portion of total borrowings and other liabilities						**2 484**
							2 749
	2017						
	Interest-bearing loans and borrowings (including finance lease liabilities excluding the convertible bond liability)	–	–	–	–	–	–
	Convertible bond liability*	1 731	–	–	–	92	1 823
		1 731	–	–	–	92	1 823
	Current portion of total borrowings and other liabilities						145
	Non-current portion of total borrowings and other liabilities						1 678
							1 823

* Refer to *note 6: Borrowing and other liabilities – Convertible bonds* for the detail disclosure of items relating to the convertible bond liability.

		Note	2018 Rm	2017 Rm
17.	**NON-CASH AND OTHER MOVEMENTS**			
	Loans and investments write offs		**3 367**	3 314
	Intercompany loan payable write off		**(2)**	–
	Intercompany loan receivable write off		**17**	–
			3 382	3 314

Notes to the separate financial statements continued

for the year ended 30 June 2018

	Note	2018 Rm	2017 Rm
18. FINANCE AND TRANSACTION EXPENSES PAID			
Amounts charged to the statement of comprehensive earnings		**(363)**	(309)
Movement in accrued finance expenses		**254**	95
		(109)	(214)

	2018 Rm	2017 Rm
19. FINANCE EARNINGS RECEIVED		
Interest received	**279**	150
Movement in accrued finance earnings	**(276)**	–
	3	150

20. CONTINGENT LIABILITIES

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

	2018 Rm	2017 Rm
Parent company guarantees issued in:		
– South Africa and rest of Africa (ZARm)	**–**	4
– Australasia and Asia (AUDm)	**337**	588

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

21. RELATED PARTIES

During the year the Company and its subsidiaries, in the ordinary course of business, entered into various transactions.

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

	2018 Rm	2017 Rm
Related party balances		
Net indebtedness due by / (to) subsidiaries		
Aveng (Africa) Proprietary Limited	**1 573**	1 202
Grinaker Intellectual Property Proprietary Limited	**(1)**	(1)
Steelmetals Proprietary Limited	**–**	(1)
Aveng Australia Holdings	**1 815**	1 201
Aveng Limited Share Purchase Trust	**(72)**	(71)
	3 315	2 330
Related party transactions		
Finance earnings		
Aveng (Africa) Proprietary Limited	**80**	141
Aveng Australia Holdings	**196**	94
	276	235
Dividend earnings		
Grinaker Intellectual Property Proprietary Limited	**–**	50
Qakazana Investment Holdings Proprietary Limited	**–**	496
Steelmetals Proprietary Limited	**–**	154
	–	700

22. RISK MANAGEMENT

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

The Company actively monitors the following risks:

Capital risk management

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

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

No changes were made in the objectives, policies or processes during the years ended 30 June 2017 and 30 June 2018.

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

Capital includes equity attributable to the equity holders of the Company of R2 308 million (2017: R5 763 million).

Liquidity risk

At year end, the Company had two revolving credit facilities, R400 million and R300 million from Absa and Nedbank respectively. Both of these were fully drawn at year end.

The Company has assessed the liquidity risk as medium. The Company remains confident that available cash resources, facilities and operating cash flows will be sufficient to meet its funding requirements. There have been no breaches or defaults on any payables or borrowings during the period.

Interest rate risk

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

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

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

For the year ended 30 June 2018, the Company managed the interest rate risk through both fixed and variable, long and short-term instruments.

Credit risk

The Company's only material exposure to credit risk is in its cash balances (refer to *note 4: Cash and bank balances*), and amounts due from subsidiaries (refer to *note 3: Amounts owing by / (to) subsidiaries*). The maximum exposure to credit risk is set out in the cash and bank balance notes. There was no collateral held on the above balances as at the 2018 year end, an impairment of R3,4 billion (2017: R30 million) was provided for.

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

22. RISK MANAGEMENT continued

Borrowing capacity

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

	2018 Rm	2017 Rm
The Company had the following undrawn facilities:		
Total borrowing facilities (includes bank overdraft facility of R700 million (2017: R556 million))	**2 749**	3 179
Current utilisation	**(2 749)**	(1 823)
Borrowing facilities available	**–**	1 356

Maturity profile of financial instruments

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

Financial instruments	Less than one year Rm	One to five years Rm	Beyond five years Rm	Total Rm
2018				
Non-derivative financial liabilities				
Interest-bearing borrowings	**265**	**2 484**	**–**	**2 749**
Amounts owing to subsidiaries	**73**	**–**	**–**	**73**
Trade and other payables	**24**	**–**	**–**	**24**
Bank overdraft	**215**	**–**	**–**	**215**
	577	**2 484**	**–**	**3 061**
2017				
Non-derivative financial liabilities				
Interest-bearing borrowings	145	1 678	–	1 823
Amounts owing to subsidiaries	73	–	–	73
Trade and other payables	12	–	–	12
	230	1 678	–	1 908

23. EVENTS AFTER THE REPORTING PERIOD

The directors are not aware of any matter or circumstance arising since the end of the reporting period not otherwise dealt with in the Consolidated financial statements of Aveng Limited (Refer to *note 51* in consolidated statements) which significantly affects the financial position of the Company as at 30 June 2018 or the results of its operations or cash flow for the year then ended.

Bastion

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