

Material matters

Aveng has formalised and strengthened its ability to identify, evaluate and manage risks and opportunities.

Aveng defines materiality of matters for reporting purposes as: matters that materially affect the Group's ability to create and sustain value over the short, medium and long term. Aveng's material matters determination process is largely informed by the International Integrated Reporting Council (IIRC) guidance whereby:



Identifying relevant internal and external matters

Aveng enterprise risk management

Aveng recognises that it needs to be financially stable and sustainable to succeed in creating value for its stakeholders. This requires:

- ▶ appointment and retention of highly skilled and motivated employees with requisite skills to fulfil their roles;
- ▶ embedding a culture of high performance in the operations;
- ▶ implementing policies and procedures with appropriate oversight; and
- ▶ commitment to a formal process of risk and opportunity management.

Risk and opportunity management approach

Aveng operates in complex environments where risk and opportunity are inherent in all of our business activities; therefore, it is impossible to completely eliminate risk. Our approach to managing risk and opportunity is based on a "three lines of defence" combined assurance model.

- ▶ The first line of defence involves early identification, quantification and assessment, and mitigation of risks and opportunities.

- ▶ The second line of defence monitors the effectiveness of the management of risks and opportunities.
- ▶ The third line of defence provides independent assurance, through external and internal audit, that the overall risk and opportunity management process is functioning appropriately.

Governance oversight

The Board's audit and risk committee acts as the governing body for the combined risk management assurance model.

The audit and risk committee (the committee) oversees the activities of all three lines of defence and receives reports on the efficacy of the three lines of defence model, with the committee receiving reports from internal and external audit (third line of defence). The committee reviews all material risks, major and problematic projects with specific focus on delays, changes in costs, commercial claims, margins and other items of concern. Peer reviews and "breaking news" on underperforming contracts are brought to the attention of the committee. Concerns raised by the committee are communicated to the relevant operating

groups for management actions. Lessons learnt from underperforming or highly successful projects are presented to the committee, providing a feedback loop to enable continuous improvement in processes and project execution.

Given that tendering is a critical process in the project lifecycle, there is a robust and staged approval process with all major bids and high-risk projects presented to the Board's tender risk committee, a sub-committee of the Board's audit and risk committee, which must satisfy itself that appropriate processes were followed in the bid preparation and that risks were considered and appropriately transferred or mitigated prior to bid submission. Particular attention is paid to the key commercial terms and the relevant operating group receives a mandate specifying the terms under which it may conclude a contract.

The audit and risk committee oversees the activities of the external and internal audit functions and receives input on the adequacy of financial reporting and control mechanisms. It also receives input on material risk issues that could impact the financial results.

Key business risks

Key business risks are identified as internal or external risks that have the potential to cause significant financial loss, or affect the safety and wellbeing of employees, matters which may fundamentally undermine the Group's competitive position and adversely impact its reputation.

A group risk register is updated quarterly and reported to the Board and the committee. This information is used to determine the strategic interventions and mitigation measures required to minimise the impact of risks.

Business environment

Aveng operates in a challenging external environment across the infrastructure investment, mining and manufacturing markets in South Africa, other markets in sub-Saharan Africa, Australasia and Southeast Asia.

Some of the main risks and opportunities affecting the Group's sectoral and geographic markets are discussed below.

South African economy

The South African economy remains subdued with persistent delays in public sector infrastructure investment. This is compounded by political volatility, policy uncertainty and concerns about the governance of state-owned entities. Most of Aveng's domestic market sectors have been adversely impacted by these factors which are likely to continue influencing investor confidence in 2019, despite the favourable leadership changes that occurred in the ruling party.

To mitigate these external impacts, Aveng seeks to:

- ▶ allocate resources to market sectors that offer growth opportunities;
- ▶ expand into growth markets beyond South Africa; and
- ▶ strengthen engagement with key clients.

Rest of Africa

The signs of recovery in many other economies in Africa following a loss of growth momentum in 2016 should have a positive effect on our business development activities in sub-Saharan Africa. While the Group has experienced limited success in securing new work in sub-Saharan Africa, the region offers sound medium to long-term opportunities in mining.

Australasia and Southeast Asia

Increasing public and private sector investment in infrastructure development in Australia and Southeast Asia contributed to an improvement in the performance of McConnell Dowell. This growth trend is expected to continue for the next five years, supported by an improvement in the commodity cycle. However, competition for available work, particularly in South East Asia, remains a prominent feature of the region.

While not as buoyant as Australia and Southeast Asia, New Zealand continues to offer opportunities in McConnell Dowell's core markets. Larger capital projects in the marine, water and transport sectors are returning to the medium-term pipeline.

Stakeholder engagement

Aveng pursues open, relationship-driven communication with stakeholders to promote confidence, mutual trust and shared growth. The Group recognises that proactive and regular engagement with stakeholders is critical in understanding their views and concerns. The ability to effectively identify material matters relating to stakeholders, including risks and opportunities, and effectively respond to them will enable the Group to develop and sustain positive relationships with all key stakeholders.

Aveng's diversity of stakeholders includes employees, shareholders and the investment community, financial institutions, clients, joint venture partners and subcontractors, suppliers and service providers, trade unions, government and regulators, industry bodies, communities and the media.

As our relationship with each stakeholder group directly impacts the sustainability of our business, continuous engagement takes place across the Group at corporate and operational levels. Aveng carefully considers feedback from stakeholders, and makes every effort to reflect on lessons from the feedback in the Group's future policies and actions, where appropriate.

Various engagement methods are used across the Group, including a stakeholder engagement plan and report-back process that enables operating groups to identify their material stakeholders based on their potential to have a positive or negative impact on the business.

During 2018, our stakeholder engagement plan focused on:

- ▶ aligning stakeholders with the strategic plan Aveng implemented to address material short-term risks;
- ▶ building and sustaining strong relationships with stakeholders; and
- ▶ monitoring and proactively managing shareholder expectations.

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The following table sets out existing methods of engagement with our key stakeholders, including our response to stakeholder concerns and expectations:

Stakeholders	Methods of engagement	Stakeholder concerns and expectations	Response to concerns and expectations
Employees South African operations – 3 289 salaried – 8 055 waged Australasian and Asian operations – 411 salaried – 1 089 project – 1 314 waged	Routine forums, one-on-one meetings, performance reviews, leadership conferences, training sessions, wellness days, safety walk-about, employee newsletters and the company intranet.	<ul style="list-style-type: none"> ▶ Job security during restructuring ▶ Redeployment from corporate office to non-core businesses ▶ Diminished career 	<ul style="list-style-type: none"> ▶ Regular communication to update employees on the status of the strategic plan ▶ Specific engagements to update operating groups and business units
Shareholders, investment community and financial institutions South Africa-based (98%) North America-based (7%) Europe-based and rest of world (8%) Lenders and analysts	Integrated and sustainability reports, trading updates and statements, results presentations and roadshows, AGM, site visits, one-on-one meetings with major shareholders and the Aveng website.	<ul style="list-style-type: none"> ▶ Financial stability ▶ Operational underperformance ▶ Retention of key talent 	<ul style="list-style-type: none"> ▶ Increased frequency of communication and engagement to provide progress updates on execution of the strategic plan
Customers and clients Private and public across all sectors covered in the Group's business model	Customer meetings, site visits, publications, conference calls, website, branded mailers, contracts and service level agreements.	<ul style="list-style-type: none"> ▶ Aveng's short-term viability and long-term sustainability 	<ul style="list-style-type: none"> ▶ Increased frequency of communication and engagement to provide progress updates on execution of the strategic plan
Trade unions South African operations: NUM, NUMSA, UASA, AMCU and Solidarity Australasia and Asian operations: AWU and CFMEU	Each operating group has its own agreements with its respective trade unions and engages through various methods and at various intervals	<ul style="list-style-type: none"> ▶ Job losses during restructuring and disposal of non-core businesses 	<ul style="list-style-type: none"> ▶ Ongoing, scheduled engagements between business units and trade unions on operational matters and restructuring
Government and regulatory bodies National, provincial, regional and local levels of government, construction regulatory boards, Competition Commission, Construction Sector Charter Council, JSE, Fair Work Commission	Submission of compliance reports, formal and informal meetings, consultations, conferences, presentations, and written communication	<ul style="list-style-type: none"> ▶ Compliance with legislation across various geographies and industries in which Aveng operates 	<ul style="list-style-type: none"> ▶ Engagement through Tirisano Trust established to implement transformation projects in Competition Commission settlement agreement
Industry bodies SAFCEC, MBSA and SEIFSA	Representation on key industry bodies, leadership meetings, correspondence, newsletters and sponsorships	<ul style="list-style-type: none"> ▶ Influence of industry bodies on public policy 	<ul style="list-style-type: none"> ▶ Participation in various structures of SAFCEC
Communities Local communities in which Aveng operates	Each operating group has its own processes with the communities in which it operates and engages through various methods and at various intervals	<ul style="list-style-type: none"> ▶ Employment, skills development and preferential procurement ▶ Unprotected strike action on community matters ▶ Political contestation impacts project labour stability 	<ul style="list-style-type: none"> ▶ Continue to train emerging suppliers in communities through Enterprise Development initiative
Media Trade and national media	Media releases, interviews and company events	<ul style="list-style-type: none"> ▶ Regular engagement ▶ Communication of company performance 	<ul style="list-style-type: none"> ▶ Increased monitoring and engagement with media



Evaluating importance of matters identified

Aveng risk management, stakeholder engagement and the business environment inform the material matters.

Magnitude of effect on the Group

Once the relevant material matters are identified, they are assessed based on their potential impact on Aveng. The assessed impact of these material matters focuses on:

1. Impact on the safety of our people
2. Loss of profit or increase in capital cost
3. Delays in achieving strategic business objectives
4. Legal ramifications
5. Environmental impact
6. Reputational damage

Likelihood of occurrence

These matters are assessed according to the likelihood that they will occur based on the following ranges:

1. Rare chance of occurrence (1% to 3%)
2. Unlikely chance of occurrence (3% to 10%)
3. Possible chance of occurrence (10% to 30%)
4. Likely chance of occurrence (30% to 60%)
5. Almost certain (60% to 100%)

In instances where a material matter has already occurred, lessons learnt are undertaken to ascertain the likelihood of reoccurrence and to ensure that correct processes are implemented to mitigate reoccurrence.

Quantitative and qualitative considerations

Quantitative considerations focus largely on financial impacts (loss of profit), an increase in capital cost and the ability to achieve business objectives. Qualitative considerations focus primarily on safety, legal, environmental and reputational impacts. These are assessed based on the likelihood of occurrence.



Prioritising matters

After identifying potential material matters, Aveng performed a correlation exercise. Several sources were consulted to determine how often the risks already identified appeared in other sources that relate to Aveng and the industries it operates in. These included investor feedback, mega-trends, emerging risks and opportunities, Aveng strategy and business model, and geographic and sector outlook. The more prevalent the risks and opportunities were in different sources, the greater the evaluation of these issues against qualitative and quantitative factors which informed the likelihood and the impact of these matters on Aveng.

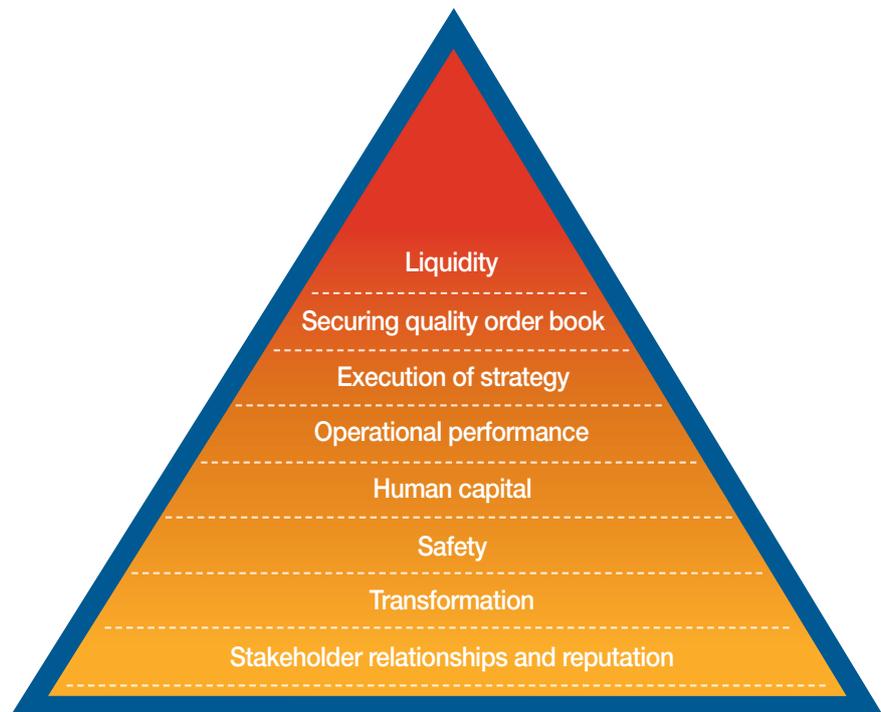
Furthermore, the Board considered what constitutes a material matter to the Group with further interrogation conducted through various forums, such as the Board and board committee meetings.

The identified material matters were ranked based on their potential probability of occurring in the Group as well as their potential quantitative and qualitative impact on the Group.

The resultant matters were then plotted on a heat map to demonstrate that only the most material matters emerge.

Focus on the most important matters

The diagram below lists the top business risks emerging from the enterprise risk management for the period. These risks are discussed more fully on pages 16 and 17. 



Material matters continued

Material matters

Our material matters which the Group reviews regularly in line with the recommendations of King IV, and our strategic responses, are discussed below:

Material matter	How we mitigated or managed material matters
<p> Liquidity The maintenance of sufficient working capital through the business cycle influences credit facilities and the ability to raise cost-effective borrowings.</p>	<ul style="list-style-type: none"> ▶ Successfully raised R493 million in a rights issue ▶ Settled the majority of outstanding claims to address balance sheet risk and uncertainty ▶ Negotiated an amended common terms agreement with South African lending banks and secured additional facilities on extended terms ▶ Completed early redemption of R2 billion convertible bond post year end. ▶ Strengthened cash flow forecasting and liquidity management ▶ Disposed of non-core property assets and Aveng Rail post year end. ▶ Stabilising non-core operations prior to disposal
<p> Securing quality order book Aveng's order book declined by 28% to R17,9 billion (December 2017: R25,1 billion) as a result of challenging market conditions in South Africa, a highly competitive environment in McConnell Dowell's core markets and a more selective approach to tendering.</p>	<ul style="list-style-type: none"> ▶ Increased focus on balancing order book growth and project risk profiles ▶ Robust application of the three lines of defence model to improve tendering procedures ▶ Focused on winning projects where Aveng has a record of technical experience and successful execution ▶ Renewed focus on market intelligence and business development to increase order book ▶ McConnell Dowell is progressing a substantial pipeline of work that is being tendered on an early client involvement (ECI) basis which takes longer but reduces project risk ▶ The withdrawal from two projects and difficulty securing new work timeously impacted Moolmans' order book. The long-term nature of many Moolmans projects mitigates downturns, but new work has a long gestation period ▶ Implemented an enhanced business development strategy at Moolmans as part of a structured Group-led intervention ▶ Allocation of resources to growth opportunities, cost reduction in line with market demand and increased client engagement
<p> Execution of strategy Delayed or non-execution of the strategy will hamper the Group's ability to create value in the longer term.</p>	<ul style="list-style-type: none"> ▶ Concerted effort across Aveng to execute the strategy, including workstreams and weekly progress reviews of delivery against planned outcomes ▶ A number of planned corporate and capital-raising actions were successfully executed, and agreement was reached on the sale of the Jet Park and Vanderbijlpark properties and Aveng Rail ▶ Interest in the other non-core operations has been received from credible buyers

Material matter	How we mitigated or managed material matters
<p>4 Operational performance Operational performance drives Aveng's financial performance.</p>	<ul style="list-style-type: none"> ▶ A strategic intervention at McConnell Dowell improved operational and financial performance ▶ Loss-making projects impacted the performance of Moolmans. Agreement was reached with clients to mitigate the financial impact, where possible Further cost optimisation and a structured Group-led intervention is under way to improve performance ▶ Aveng Grinaker-LTA was impacted by ongoing challenges in Civil Engineering, while Building encountered challenges in closing out three large projects. Mechanical and Electrical and Aveng Water delivered planned results. New management is addressing underperformance ▶ Sustained weakness in most of its markets impacted the financial performance of Aveng Manufacturing. A structured plan was implemented to improve efficiency and track performance against strategy ▶ Aveng Trident Steel returned to profitability and pursued new opportunities in challenging market conditions
<p>5 Human capital Specialist skills are required to deliver projects successfully. Loss of critical skills affects performance with an associated negative impact on earnings.</p>	<ul style="list-style-type: none"> ▶ Underperformance in some operations and the uncertainty imposed by a disposal process have increased the risk of losing key and critical staff in South Africa ▶ An internal communication plan was implemented to ensure continuous engagement with employees during the reorganisation process
<p>6 Safety Aveng operates in a diverse, complex environment and employs a large workforce. The safety of employees is a core value that is integral to the way the Group conducts its business and will not be compromised.</p>	<p>Aveng's key safety focus areas and objectives are:</p> <ul style="list-style-type: none"> ▶ Monitoring conformance to Aveng SHE standards ▶ Implementation of initiatives to reduce safety incidents ▶ Measuring performance against the Aveng SHE Plan on a Page
<p>7 Transformation* Drop in scorecard impacts both future and current South African business operations.</p>	<ul style="list-style-type: none"> ▶ Developing individual business unit scorecards in support of non-core disposal strategy ▶ Focus on mechanisms to improve enterprise and supplier development scores ▶ Constant evaluation of restructuring impact on employment equity
<p>8 Stakeholder relationships and reputation Stakeholder expectations can impact Aveng's ability to create and sustain value.</p>	<ul style="list-style-type: none"> ▶ High-level executive engagement with funding banks and shareholders ▶ Proactive communications strategy and increased internal communication

* Specific to South Africa.