

# Materiality

Aveng has a well-established process 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.

We determine and assess material matters regularly by proactively assessing trends in the changing business environment and responding to unforeseen developments. Our material matters inform our strategy, thereby enabling the Group to create value.



**1 IDENTIFYING RELEVANT INTERNAL AND EXTERNAL MATTERS**

**Aveng enterprise risk management**

**Risk and opportunity management approach**

Our approach to managing risk and opportunity is based on a “three lines of defence” combined assurance model.



**Governance oversight**

The Board’s audit and risk committee acts as the governing body for the combined assurance model by:

- ▶ Overseeing the activities and efficacy of all three lines of defence
- ▶ Reviewing all material risks, major and problematic projects with specific focus on delays, changes in costs, commercial claims, margins and other items of concern
- ▶ Communicating concerns raised by the committee to the relevant operating groups for management actions
- ▶ Ensuring that lessons learnt from underperforming or successful projects enable continuous improvement in processes and project execution
- ▶ Overseeing the activities of the external and internal audit functions and receiving input on the adequacy of financial reporting and control mechanisms and on material risk issues that could impact the financial results.

The tender risk committee, a sub-committee of the audit and risk committee:

- ▶ Reviews all major bids and high-risk projects to ensure that

appropriate processes are followed in bid preparation and that risks are considered and appropriately mitigated before bid submission

- ▶ Provides a mandate specifying the terms under which operations may conclude a contract.

**Key business risks and opportunities**

Risk and opportunity management involves a continuous process of regular review and management of changes in the Group’s business or project environments.

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 audit and risk committee.

Opportunity management focuses on identifying and removing barriers to success, thereby enabling the Group to capitalise on opportunities at a strategic, business and project

level. Opportunities are identified by exploring previously perceived but unexamined risk, such as learning from best practice, scenario planning and learning from past ignored or missed opportunities. Opportunities offer the potential benefits of strategic alignment and advancement of business objectives which create value for stakeholders.

- ▶ Market risks and opportunities report, page 10.

**Stakeholder engagement**

Aveng has a diverse range of stakeholders who have an interest in our business and may be affected by it. Our stakeholders influence our ability to create sustainable value. This is why we engage openly and constructively with them to ensure that we understand and respond to their expectations and concerns. By doing so effectively, we can create lasting value for our business and our stakeholders.

Aveng has a stakeholder engagement plan and report-back process that enables the corporate office and operating groups to identify and respond to their material stakeholders.

# Materiality continued

**Aveng’s diverse range of stakeholders includes:**

- Employees
- Shareholders and financial institutions
- Clients, subcontractors and other suppliers
- Trade unions
- Government and regulators
- Industry bodies
- Communities

**During 2019, our stakeholder engagement plan focused on:**

 <b>Clients, sub-contractors and other suppliers</b>	 <b>Employees</b>	 <b>Shareholders and financial institutions</b>	 <b>Government and regulators</b>
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**WHAT THEY EXPECT OF US**

**A business that delivers projects or services safely, on time and within budget**

**An employer that offers its people the opportunity to realise their full potential in safe working environments**

**A trustworthy business that fulfils its promise of financial stability and sound, sustainable future returns**

**A compliant business that shares its industry knowledge to ensure fair regulatory environments**

**HOW WE RESPONDED**

- ▶ Improved delivery of a substantial number of projects
- ▶ Addressed under-performing projects in consultation with clients.

▶ Performance review, pages 44 to 55.

- ▶ Embedding Aveng values and a high-performance culture in core businesses
- ▶ Rewarding exceptional performance based on clearly defined standards
- ▶ Disposing of non-core assets in a responsible manner.

▶ People management, sustainability report [www.aveng.co.za](http://www.aveng.co.za)

- ▶ Implemented a strategic plan to ensure a long-term sustainable capital structure
- ▶ Completed capital market transactions
- ▶ Restructured bank debt and repaid R300 million
- ▶ Disposed of non-core businesses as going concerns.

▶ Performance review, pages 30 to 39.

- ▶ Compliance with laws, regulations, and codes of best practice in all countries in which we operate
- ▶ Reinforced Aveng values throughout organisation
- ▶ Aveng Code of Business Conduct requires ethical conduct of all our companies and employees.

▶ Governance report, pages 58 to 61.

▶ Business model pages 12 and 13.

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## 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:

Impact on the safety of our people	Loss of profit or increased capital cost	Delays in achieving strategic objectives	Legal ramifications	Environmental impact	Reputational damage
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### Likelihood of occurrence

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

<b>Improbable</b> >0% – 3%	<b>Unlikely</b> >3% – 10%	<b>Possible</b> >10% – 30%	<b>Probable</b> >30% – 60%	<b>Highly likely</b> >60% – <100%
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If a material matter has 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, 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.

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## PRIORITISING MATTERS

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





### Focus on the most important matters

The top material matters are discussed more fully on pages 22 and 23.

# Materiality continued

## MATERIAL MATTERS

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

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<b>MATERIAL MATTER</b>	<p><b>Capital restructure</b></p> <p>Aveng depends on a sound, sustainable balance sheet, with manageable levels of debt, to develop the foundation for long-term growth and value creation.</p>	<p><b>Core operational performance</b></p> <p>Sound project execution, quality order books and scale create sustainable value. Underperformance impacts financial performance and undermines future work opportunities.</p>
<b>STAKEHOLDERS IMPACTED</b>	 <b>Investors and financial institutions</b>	 <b>Clients and subcontractors</b>  <b>Investors and financial institutions</b>  <b>Employees</b>
<b>OUR RESPONSE</b>	<ul style="list-style-type: none"> <li>• Completed early redemption of R2 billion convertible bond</li> <li>• Disposed of Rail and Water non-core businesses and properties</li> <li>• Announced sales of Infraset, Dynamic Fluid Control, Duraset (Alrode), Building and Civils, Rand Roads, Ground Engineering and Mechanical and Electrical</li> </ul>	<ul style="list-style-type: none"> <li>• McConnell Dowell remained profitable and has increased its bidding activity to grow its order book</li> <li>• A Group-led intervention at Moolmans addressed poor performance by renegotiating an underperforming contract and securing contract extensions</li> </ul>
<b>LINK TO STRATEGY</b>	<b>Capital restructure</b>	<b>Core operational performance</b>
<b>OUTLOOK</b>	<ul style="list-style-type: none"> <li>• Strong focus on working capital management</li> <li>• Complete non-core disposals</li> <li>• Focus on core operational performance and quality order books</li> </ul>	<ul style="list-style-type: none"> <li>• McConnell Dowell secured 77% of 2020 revenue; well positioned in growing markets</li> <li>• Moolmans grew its order book by 50% to R6 billion and secured 82% of 2020 revenue; pursuing additional opportunities</li> </ul>

The transformation and stakeholder relationships and reputation material matters that were reported in 2018 continue to be mitigated and managed and are closely monitored.

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**Non-core assets**

Disposals improve liquidity and strengthen the focus on core businesses. A delayed disposal process is disruptive to operations and employees and may negatively impact performance.



Employees



Investors and financial institutions

- Announced majority of non-core disposals as going concerns
- Remaining disposals due to be completed by June 2020
- Continued support and drive for improved performance pending the disposal of the remaining businesses

**Capital restructure**

**Non-core asset disposal**

- Well positioned to sell the balance of non-core businesses to reduce debt and strengthen the Group's financial position

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**Human capital**

Specialist skills and performance excellence are vital for organisational performance. Loss of critical skills affects performance and has a negative impact on earnings.



Employees



Clients



Investors and financial institutions

- Embedding a values-driven high-performance culture
- Developing management capability and bench strength in Moolmans and McConnell Dowell
- Short-term incentivisation to drive performance and talent retention

**Non-core asset disposal**

**Core operational performance**

- Revising scheme to incentivise targeted behaviour and performance in line with shareholder expectations
- Holding employees accountable for performance

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**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.



Employees



Clients and subcontractors

- Leadership visibility at workplaces, employee awareness and accountability for safety
- Increased road safety controls and addressed risk factors such as fatigue through the Employee Wellness Programme

**Non-core asset disposal**

**Core operational performance**

- Continued focus on leadership visibility and employee awareness and accountability
- Targeting zero harm and ongoing reduction in lost-time and recordable injuries

The execution of strategy material matter is inclusive in all of our published material matters and, as a consequence, continues to receive a high level of management attention.