B & W Instrumentation and Electrical Limited

Audited condensed consolidated annual results

for the year ended 31 August 2013

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B & W Instrumentation and Electrical Limited Incorporated in the Republic of South Africa
(Registration number 2001/008548/06) Share code: BWI ISIN: ZAE000098687 ("B&W" or "the company" or "the group")

Condensed consolidated statement of **financial position** as at 31 August 2013

	2013 R'000	2012 R'000
Assets		
Non-current assets		
Property, plant and equipment	**27 784**	27 081
Goodwill	**7 368**	7 368
Intangible assets	**851**	1 702
Other financial assets	**–**	250
Deferred tax	**19 415**	4 304
Retention debtors	**2 317**	4 329
	57 735	45 034
Current assets		
Inventories	**20 438**	15 449
Other financial assets	**911**	3 567
Current tax receivable	**109**	–
Trade and other receivables	**193 546**	221 392
Cash and cash equivalents	**15 206**	15 155
	230 210	255 563
Total assets	**287 945**	300 597
Equity and liabilities		
Equity		
Equity attributable to equity holders of parent		
Share capital	**38 583**	38 583
Reserves	**2 624**	246
Retained income	**108 592**	144 425
	149 799	183 254
Non-controlling interest	**421**	151
	150 220	183 405
Liabilities		
Non-current liabilities		
Finance lease obligation	**385**	554
Current liabilities		
Loans from related parties	**2 965**	3 630
Loans from shareholders	**3 926**	4 628
Financial liabilities	**8 411**	20 144
Current tax payable	**5 723**	4 357
Finance lease obligation	**169**	201
Trade and other payables	**100 263**	79 342
Provisions	**4 865**	4 336
Bank overdraft	**11 018**	–
	137 340	116 638
Total liabilities	**137 725**	117 192
Total equity and liabilities	**287 945**	300 597
Net asset value per share (cents)	**73,3**	89,7
Net tangible asset per share (cents)	**69,3**	85,3

Condensed consolidated statement of **comprehensive income** for the year ended 31 August 2013

	2013 R'000	2012 R'000
Contract revenue	**399 860**	442 374
Contract costs	**(358 397)**	(374 888)
Gross profit	**41 463**	67 486
Other income	**1 865**	1 876
Operating expenses	**(89 302)**	(53 590)
Operating (loss)/profit	**(45 974)**	15 772
Investment revenue	**76**	45
Finance costs	**(4 712)**	(5 548)
(Loss)/profit before taxation	**(50 610)**	10 269
Taxation	**14 848**	(7 683)
(Loss)/profit for the year	**(35 762)**	2 586
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation reserve gross movement	**2 577**	(1 235)
Other comprehensive income/(loss) for the year net of taxation	**2 577**	(1 235)
Total comprehensive (loss)/income for the year	**(33 185)**	1 351
(Loss)/profit attributable to:		
Owners of the parent	**(36 010)**	2 882
Non-controlling interest	**248**	(296)
	(35 762)	2 586
Total comprehensive (loss)/income attributable to:		
Owners of the parent	**(33 455)**	1 659
Non-controlling interest	**270**	(308)
	(33 185)	1 351
(Loss)/earnings per share (cents)		
Per share information		
Basic and diluted (loss)/earnings per share (cents)	**(17,6)**	1,4

Reconciliation of **headline earnings**

	2013 R'000	2012 R'000
Weighted average number of shares		
Shares in issues for the full year ('000)	**204 374**	204 374
Reconciliation between earnings/(loss) and headline earnings/(loss)		
Profit/(loss) attributable to ordinary shareholders	**(36 010)**	2 882
Adjusted for:		
(Profit)/loss on disposal of property, plant and equipment (net of tax)	**50**	(109)
	(35 960)	2 773
Headline (loss)/earnings per share		
Basic and diluted (cents)	**(17,6)**	1,4

Condensed consolidated statement of **changes in equity** for the year ended 31 August 2013

	Share capital R'000	Share premium R'000	Treasury shares R'000	Total share capital R'000	Foreign currency translation reserve R'000	Share-based payment reserve R'000	Total share capital and reserves R'000	Retained income R'000	Total attributable to equity holders of the group R'000	Non-controlling interest R'000	Total equity R'000
Group											
Balance at 1 September 2011	2	49 850	(11 269)	38 583	500	–	39 083	140 776	179 859	459	180 318
Total comprehensive income for the year	–	–	–	–	(1 223)	–	(1 223)	2 882	1 659	(308)	1 351
Equity-settled share-based payment	–	–	–	–	–	1 736	1 736	–	1 736	–	1 736
Transfer from reserves	–	–	–	–	–	(767)	(767)	767	–	–	–
Total changes	–	–	–	–	(1 223)	969	(254)	3 649	3 395	(308)	3 087
Balance at 1 September 2012	2	49 850	(11 269)	38 583	(723)	969	38 829	144 425	183 254	151	183 405
Total comprehensive loss for the year	**–**	**–**	**–**	**–**	**2 555**	**–**	**2 555**	**(36 010)**	**(33 455)**	**270**	**(33 185)**
Transfer from reserves	**–**	**–**	**–**	**–**	**–**	**(177)**	**(177)**	**177**	**–**	**–**	**–**
Total changes	**–**	**–**	**–**	**–**	**2 555**	**(177)**	**2 378**	**(35 833)**	**(33 455)**	**270**	**(33 185)**
Balance at 31 August 2013	**2**	**49 850**	**(11 269)**	**38 583**	**1 832**	**792**	**41 207**	**108 592**	**149 799**	**421**	**150 220**

Condensed consolidated statement of **cash flows** for the year ended 31 August 2013

	2013 R'000	2012 R'000
Cash flows from operating activities		
Cash generated from/(utilised in) operations	**4 191**	49 256
Interest income	**76**	45
Finance costs	**(4 712)**	(5 548)
Tax refunded/(paid)	**994**	(13 748)
Net cash from operating activities	**549**	30 005
Cash flows from investing activities		
Purchase of property, plant and equipment	**(5 842)**	(4 283)
Sale of property, plant and equipment	**554**	4 420
Loans from related parties advanced	**–**	7 932
Loans from related parties repaid	**(665)**	(260)
Proceeds from financial assets	**2 906**	–
Acquisition of financial assets	**–**	(250)
Receipts from retention debtors	**4 329**	–
Advances to retention debtors	**(2 317)**	(4 329)
Net cash from investing activities	**(1 035)**	3 230
Cash flows from financing activities		
Repayment of financial liabilities	**(11 733)**	–
Advances from financial liabilities	**–**	20 144
Repayment of shareholder's loan	**(702)**	(3 195)
Finance lease inflows	**–**	770
Finance lease outflows	**(201)**	(114)
Net cash from financing activities	**(12 636)**	17 605
Total cash movement for the year	**(13 122)**	50 840
Cash at the beginning of the year	**15 155**	(34 453)
Effect of exchange rate movement on cash balances	**2 155**	(1 232)
Total cash at the end of the year	**4 188**	15 155

Segmental reporting

The group's segmental analysis is based on the economic environments in which it operates as presented below. All the business activities are related to the construction and erection of electrical plant and instrumentation.

Transactions reflected below between segments are carried out on an arm's length basis.

	South Africa 2013 R'000	Foreign operations 2013 R'000	**Total 2013 R'000**
Contract revenue	312 760*	87 100**	**399 860*** **
Contract costs	(280 725)*	(77 672)**	**(358 397)*** **
Gross profit	32 035	9 428	**41 463**
Other income	1 865	–	**1 865**
Operating expenses	(69 948)	(19 354)	**(89 302)**
Operating loss	(36 048)	(9 926)	**(45 974)**
Investment revenue	76	–	**76**
Finance costs	(4 712)	–	**(4 712)**
Loss before taxation	(40 684)	(9 926)	**(50 610)**
Taxation	16 026	(1 178)	**14 848**
Loss for the year	(24 658)	(11 104)	**(35 762)**
Note			
Included in operating expenses are:			
Bad debts	37 008	–	**37 008**
Depreciation and amortisation	4 953	839	**5 792**
Assets and liabilities			
Total assets	243 599	44 346	**287 945**
Total liabilities	(121 814)	(15 911)	**(137 725)**
	121 785	28 435	**150 220**

* *South African segment sales and cost of sales have been reduced by R21 300 000 (2012: R8 600 000) and R3 700 000 (2012: R17 700 000), respectively due to inter-segment sales.*

** *Foreign operations segment sales and cost of sales have been reduced by RNil (2012: R16 800 000) and R17 600 000 (2012: R7 700 000), respectively, due to inter-segment sales.*

*** *Included above are inter-company sales of R21 300 000 (2012: R25 400 000) and cost of sales of R21 300 000 (2012: R25 400 000).*

Commentary

Basis of preparation

These preliminary condensed audited consolidated financial statements have been prepared in accordance with the framework concepts, the recognition and measurement principles of International Financial Reporting Standards ('IFRS'), the presentation and disclosure requirements of IAS 34: *Interim Financial Statements*, the SAICA Financial Reporting Guides issued by the Accounting Practices Committee, the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the Listing Requirements of the JSE Limited and the requirements of the South African Companies Act. The financial information does not include all the information required for full annual financial statements and should be read in conjunction with the consolidated financial results of the group as at and for the year ended 31 August 2013.

The condensed consolidated financial information is presented in South African Rand rounded to the nearest thousand, which is the company's functional and the group's reporting currency. The accounting policies applied in the presentation of the condensed consolidated financial information are consistent with those applied for the year ended 31 August 2012, except for new standards and interpretations that became effective on 1 September 2012 and deemed applicable to the group. The adoption of these standards and interpretations had no impact on the results for the year nor has it required the restatement of any prior period figures.

These financial statements were prepared under the supervision of Mr Danie Evert, the Financial Director of the group.

Audit opinion

The unmodified audit report of Certified Master Auditors Inc., the independent auditors, on the consolidated annual financial statements for the year ended 31 August 2013, dated 15 November 2013, is available for inspection at the registered office of the company.

Directors' responsibility

The directors take full responsibility for the preparation of these preliminary condensed audited financial statements and the financial information has been correctly extracted from the underlying group financial statements.

Introduction

As anticipated the year was challenging in light of macroeconomic conditions and the collapse of the mining industry and resultant delays and cancellations of projects. Notwithstanding these negative impacts the second half of the year saw the group posting improved profitability with net profit of R5 million for the six months ended August. In a year of two halves the prior six months to February were negatively impacted by low project volumes and the final R33 million bad debt on the Madagascar project.

B&W has now concluded its consolidation phase, reducing both operating expenses and cost of sales. The consolidation phase included restructuring and right sizing operations, which have now positioned the group to capitalise on new opportunities.

At year-end the order book totalled R401,0 million (August 2012: R237,0 million) with all contracts at slightly improved margins. Anticipated new orders total approximately R50,0 million to R58,0 million, over the short- to medium-term.

Group profile

B&W is one of South Africa's top three niche providers of electrical and instrumentation ('E&I') services as well as an earthing, lightning and surge protection specialist. Clients range across the oil & gas, infrastructure, industrial, utilities, mining, chemical, renewable energy and power generation industries in South Africa and sub-Saharan Africa. Specific services include equipment procurement, project supervision, installation of the E&I system, post-installation commissioning and ongoing maintenance.

Financial results

Contract revenue decreased 9,6% to R399,9 million from R442,4 million in the prior year. B&W posted a loss after tax of R35,8 million compared to a profit of R2,6 million for the year ended 31 August 2012. This equated to a loss per share of 17,6 cents compared to earnings per share of 1,4 cents in the prior year. Bad debts of R37,0 million put pressure on operating expenses, which totalled R89,3 million (August 2012: R53,6 million).

At year-end the group's net cash position was R4,2 million (August 2012: R15,2 million).

Funding

The company maintains no long-term interest bearing borrowings.

Operations

South Africa accounted for 78% of group revenue with Africa accounting for 22%. With increased focus on opportunities in Africa, the region accounts for 44% of current work in hand, with the balance in South Africa.

B-BBEE

B&W formed a new subsidiary with B-BBEE shareholding in excess of 26%, in line with mining charter requirements.

Prospects

B&W is progressing with its five-year strategic plan, which includes selective targeted projects with a minimum acceptable profit levels and payment behaviour. This strategy, marketing and sales efforts have produced a reasonable robust order book for 2014 despite challenging conditions and created a sound framework to build momentum into the future for sustained growth. Notably all new orders secured are at margins above the threshold set by B&W.

Notwithstanding continued challenging trading conditions as a result of a subdued economy, a sluggish mining industry, and uncertainty in the construction sector tender activity has increased.

Given the prolonged downturn in the economy generally and the construction sector specifically, we have adopted a more cautious approach to 2014 and 2015.

Cross-border activity remains promising and the group has targeted selective countries to secure future long term work, but will continue to pursue opportunities on a project by project basis in other regions with our preferred clients. The group expects to even the South Africa: Africa split going forward. The targeted countries are Mozambique, Kenya, Namibia, Ghana, Tanzania, Botswana, Zambia and Uganda.

B&W will seek a more normalised revenue split between sectors, thereby lowering the dependency on the mining sector. The revenue split for the year per sector was as follows: mining 59%, industrial 15%, oil & gas 11%, power generation 5%, earthing lightning and surge protection 10%. A more even split is expected in the next 12 to 18 months.

Dividend

No dividend has been declared for the year in line with the group's undertaking of consolidation. It remains the group's policy to declare annual dividends going forward, cash flow permitting.

Changes to the board of directors

As announced on SENS on 26 November 2012:

– Mr Thomas Lombard resigned as an executive director with effect from 23 November 2012; and
– Mr Jimmy Oosthuizen retired as an independent non-executive director with effect from 18 January 2013.

Subsequent events

Other than the joint cautionary announcement released on SENS with ELB Group Limited on 4 November 2013, the board of directors is not aware of any material matters or circumstances arising since year-end up to the date of this report, which has not been disclosed.

Appreciation

The board extends its appreciation to management and staff for their hard work and dedication during a challenging year. We also thank our business partners, suppliers, advisors and our valued clients and shareholders for their continued confidence in the group.

John Barrow
Chairman

Brian Harley
Chief Executive Officer

On behalf of the board.

18 November 2013

Directors
John Barrow* (Chairman); Brian Harley (CEO); Danie Evert (Financial Director); Dean Nevay; Gary Swanepoel; Wolf Wassermeier*^; Unati Mabandla*^; George Robertson*^; Roger Pitt*^

* *Non-executive director*
^ *Independent*

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Investor Relations
Envisage Investor & Corporate Relations