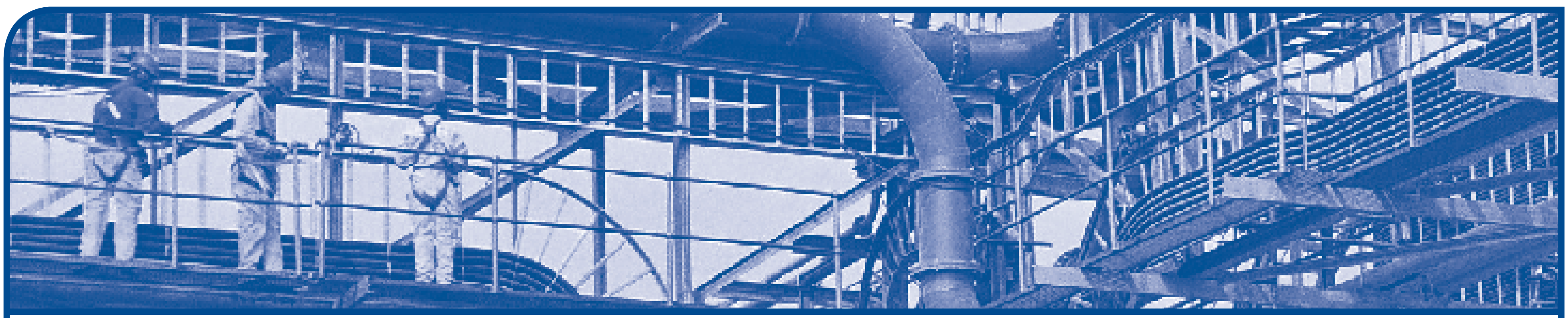

B & W Instrumentation and Electrical Limited

# Reviewed consolidated interim results for the six months ended 28 February 2011

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")

■ Revenue **up 55%** ■ Order book **R489 million** ■ NPAT **R12 million** ■ EPS **6 cents**

## COMMENTARY

### BASIS OF PREPARATION

The accounting policies applied in the preparation of these reviewed consolidated interim financial statements, which are based on reasonable judgments and estimates, are in accordance with International Financial Reporting Standards ("IFRS") and are consistent with those applied in the audited annual financial statements for the year ended 31 August 2010. The reviewed consolidated interim financial statements as set out in this report have been prepared in terms of IAS 34: Interim Financial Reporting, the Companies Act, 1973 (Act 61 of 1973), as amended, and the Listings Requirements of JSE Limited.

### REVIEW OPINION

The reviewed consolidated interim results for the period have been reviewed by B&W's auditors, Certified Master Auditors Inc. Their unqualified review opinion is available for inspection at the company's registered office.

### INTRODUCTION

As anticipated, the reviewed consolidated interim results for the six months ended 28 February 2011 ("the interim period") saw a reduction in earnings as a result of the prevailing difficult trading conditions in the construction industry. Operating margins continued to be eroded by intensified competition in a contracting market, and were further impacted by the inevitable renegotiation of terms on the reinstatement of projects which had been previously delayed.

However, despite these challenges, B&W's fundamentals remain sound and the group's resilience compares favourably to its peers. An increase in revenue was driven mainly by reinstated projects.

The working capital cycle has been extended on work in South Africa and even more so on cross-border contracts, placing increasing pressure on cash flow.

### 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 and food & beverage industries in sub-Saharan Africa. Specific services include equipment procurement, project supervision, installation of the E&I system, post-installation commissioning and ongoing maintenance.

### FINANCIAL RESULTS

Revenue increased to R387 million from R249 million in the previous comparative period. Lower operating margins resulted in a decrease in net profit after tax ("NPAT") and earnings per share ("EPS"), respectively.

Cash on hand decreased from R70 million to a negative R33 million. The tough market conditions severely impacted cash flow as the group is currently executing large revenue projects where the bulk of the payment typically only occurs towards the end of the contract.

Pontins (Proprietary) Limited ("Pontins") was equally impacted by harsh market conditions and therefore performance was less than optimal.

### FUNDING

B&W has, through discussion with its commercial bankers, introduced a credit facility including overdraft, foreign exchange and performance bond facilities. This will be assessed on an ongoing basis to ensure that it meets the working capital requirements of the company.

### PROSPECTS

The group has a track record of over 35 years having successfully weathered cyclical volatility. B&W will take advantage of the current lull to build management capacity and position the group to capitalise on opportunities in the upturn of the construction cycle.

Revenue is expected to remain high in the interim period ahead to year-end. However, B&W intends to focus on strengthening operating margins and stabilising cash flow. The critical initiatives to this end will erode revenue to a certain extent in subsequent years.

There is an indication of initial recovery in the economy. However, the construction sector, which typically lags the rest of the economy, remains severely depressed. For B&W, this is compounded by the timing of its services being at the end of the construction cycle. These conditions are expected to continue for the rest of 2011 and into 2012. Beyond 2012 the market is anticipated to normalise and B&W is optimistic about prospects in the longer term. The group should start benefiting from the roll-out of mining infrastructure once the current rise in commodity prices feeds through to the initiation of new mining projects.

Little improvement in market conditions is expected in the short term. Current market conditions and other prudent considerations are forcing the group to be more selective of contracts. The order book in hand at 28 February 2011 stood at R489 million.

### DIRECTORATE

Mr Ken Nel resigned from the board of directors of B&W ("the board") as an executive director with effect from 31 January 2011, but remains with the company in the capacity of employee.

Messrs Neels Minnie and Johan Rall, both alternate directors to executive directors, resigned from the board with effect from 31 March 2011 and 30 April 2011, respectively.

### DIVIDEND

In light of the cash position no interim dividend has been declared. It remains group policy to declare a final dividend of 25% of NPAT, cash flow permitting.

### SUBSEQUENT EVENTS

The board of directors is not aware of any material matters or circumstances arising since the end of the interim period up to the date of this report.

### DEFERRED TAX

In the prior year, the deferred tax balances were disclosed as current and non-current. In terms of IAS 1, deferred tax should always be presented as non-current, even if a portion of the asset or liability will realise within the next financial period.

As such, the amounts reflected in the statements of financial position, have been reclassified as non-current.

The restatement has no impact on the net asset position, the statement of comprehensive income, earnings per share and headline earnings per share.

| | Group | |
|---|---|---|
| **Statement of financial position** | **February 2010** | February 2009 |
| Deferred tax – current | **10 528** | 12 503 |
| Deferred tax – non-current | **(10 528)** | (12 503) |

### OPERATING SEGMENTS

Previously, the group was managed based on the geographical location of its operations. The basis on which operations are managed has changed in the period under review to areas of risk and this has necessitated a change to the disclosures made under the Segmental Reporting Note. The amount previously reported has also been restated to reflect the changes in the structure of the group.

**John Barrow**
Chairman

**Brian Harley**
Chief Executive Officer

On behalf of the board

18 April 2011

### DIRECTORS

John Barrow* (Chairman); Brian Harley (CEO); Danie Evert (Financial Director); Johan Breedt; Tom Lombard; Dean Nevay; Gary Swanepoel; Sam Vilakazi; Wolf Wassermeier*^; Jimmy Oosthuizen*^; Unati Mabandla*^.

**Non-executive director*

*^Independent*

### REGISTERED OFFICE

42 Fourth Avenue, Alberton North, 1449
(PO Box 956, Alberton, 1450)

### DESIGNATED ADVISER

Merchantec Capital

### TRANSFER SECRETARIES

Computershare Investor Services (Proprietary) Limited
70 Marshall Street, Johannesburg, 2001
(PO Box 61051, Marshalltown, 2107)

### COMPANY SECRETARY

CIS Company Secretaries (Proprietary) Limited
70 Marshall Street, Johannesburg, 2001
(PO Box 61051, Marshalltown, 2107)

### INVESTOR RELATIONS

Envisage Investor & Corporate Relations

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | **Reviewed 28 February 2011 R'000** | Reviewed 28 February 2010 R'000 | Audited 31 August 2010 R'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | **64 000** | 61 179 | 63 477 |
| Property, plant and equipment | **35 801** | 31 853 | 36 939 |
| Deferred tax | **5 406** | 1 492 | – |
| Goodwill | **7 368** | 6 854 | 7 368 |
| Intangible assets | **2 978** | 3 829 | 3 404 |
| Retention debtors | **12 447** | 17 151 | 15 766 |
| **Current assets** | **352 447** | 276 879 | 400 914 |
| Inventories | **4 318** | 1 828 | 3 502 |
| Loans to related parties | **–** | – | 3 700 |
| Other financial asset | **3 525** | – | 3 484 |
| Trade and other receivables | **344 604** | 205 378 | 319 146 |
| Cash and cash equivalents | **–** | 69 673 | 71 082 |
| **Total assets** | **416 447** | 338 058 | 464 391 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | **207 782** | 177 021 | 205 084 |
| Share capital | **38 583** | 32 285 | 38 583 |
| Foreign currency translation reserve | **(144)** | – | 315 |
| Retained income | **169 052** | 144 653 | 165 970 |
| Minority interest | **291** | 83 | 216 |
| **Non-current liabilities** | **14 136** | 11 516 | 11 813 |
| Deferred tax | **14 063** | 11 345 | 11 682 |
| Finance lease obligation | **73** | 171 | 131 |
| **Current liabilities** | **194 529** | 149 521 | 247 494 |
| Loans from related parties | **5 112** | 18 | 1 634 |
| Financial liabilities | **24 505** | 18 515 | 49 217 |
| Current tax payable | **13 424** | 1 819 | 6 841 |
| Trade and other payables | **105 034** | 127 387 | 181 079 |
| Finance lease obligation | **49** | 171 | 158 |
| Directors' loans | **5 329** | – | – |
| Bank overdraft | **32 718** | – | – |
| Provisions | **8 358** | 1 611 | 8 565 |
| **Total equity and liabilities** | **416 447** | 338 058 | 464 391 |
| Number of ordinary shares in issue | **204 373 959** | 200 000 000 | 204 373 959 |
| Net asset value per share (cents) | **101,7** | 88,5 | 100,4 |
| Net tangible asset value per share (cents) | **96,6** | 83,2 | 95,1 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | **Reviewed six months to 28 February 2011 R'000** | Reviewed six months to 28 February 2010 R'000 | Audited 12 months to 31 August 2010 R'000 |
|---|---|---|---|
| **Contract revenue** | **386 563** | 248 634 | 601 283 |
| Cost of contracts | **(342 749)** | (191 493) | (478 158) |
| **Gross profit** | **43 814** | 57 141 | 123 125 |
| Other income | **31** | 3 278 | 1 040 |
| Operating expenses | **(25 104)** | (18 534) | (45 855) |
| **Operating profit** | **18 741** | 41 885 | 78 310 |
| Investment revenue | **40** | 2 575 | 3 567 |
| Finance costs | **(1 605)** | (21) | (323) |
| **Profit before taxation** | **17 176** | 44 439 | 81 554 |
| Taxation | **(4 818)** | (13 482) | (24 041) |
| Profit for the year | **12 358** | 30 957 | 57 513 |
| **Other comprehensive income** | | | |
| Foreign currency translation reserve | **(464)** | – | 318 |
| Total comprehensive income | **11 894** | 30 957 | 57 831 |
| **Profit attributable to:** | | | |
| Owners of the parent | **12 279** | 30 882 | 57 308 |
| Non-controlling interest | **79** | 75 | 205 |
| | **12 358** | 30 957 | 57 513 |
| **Total comprehensive income attributable to:** | | | |
| Owners of the parent | **11 819** | 30 882 | 57 623 |
| Non-controlling interest | **75** | 75 | 208 |
| | **11 894** | 30 957 | 57 831 |
| **Profit attributable to:** | | | |
| Owners of the parent | **12 279** | 30 882 | 57 308 |
| Adjustment for headline earnings – profit on sale of property, plant and equipment | **(31)** | – | (14) |
| **Headline earnings attributable to ordinary shareholders** | **12 248** | 30 882 | 57 294 |
| Weighted average number of ordinary shares in issue | **204 373 959** | 200 000 000 | 201 275 738 |
| Earnings per ordinary share (cents) | **6,0** | 15,5 | 28,5 |
| Headline earnings per ordinary share (cents) | **6,0** | 15,4 | 28,5 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Share capital R'000 | Share premium R'000 | Treasury shares R'000 | Foreign currency translation reserve R'000 | Distri-butable reserve R'000 | Minority interest R'000 | Total equity R'000 |
|---|---|---|---|---|---|---|---|
| Balance at 1 September 2009 | 2 | 43 552 | (11 269) | – | 123 771 | 8 | 156 064 |
| Net profit for the period | – | – | – | – | 30 882 | 75 | 30 957 |
| Dividends paid | – | – | – | – | (10 000) | – | (10 000) |
| Balance at 28 February 2010 | 2 | 43 552 | (11 269) | – | 144 653 | 83 | 177 021 |
| Issue of share capital | – | 6 298 | – | – | – | – | 6 298 |
| Net profit for the period | – | – | – | 315 | 26 426 | 133 | 26 874 |
| Dividends paid | – | – | – | – | (5 109) | – | (5 109) |
| Balance at 31 August 2010 | 2 | 49 850 | (11 269) | 315 | 165 970 | 216 | 205 084 |
| Net profit for the period | – | – | – | (459) | 12 279 | 75 | 11 895 |
| Dividends paid | – | – | – | – | (9 197) | – | (9 197) |
| **Balance at 28 February 2011** | **2** | **49 850** | **(11 269)** | **(144)** | **169 052** | **291** | **207 782** |

## CONSOLIDATED CASH FLOW STATEMENT

| | **Reviewed six months 28 Feb 2011 R'000** | Reviewed six months 28 Feb 2010 R'000 | Audited 12 months 31 August 2010 R'000 |
|---|---|---|---|
| Cash (utilised in)/generated from operations | **(77 704)** | 21 103 | 23 305 |
| Interest income | **40** | 2 575 | 3 567 |
| Finance costs | **(1 605)** | (21) | (323) |
| Tax paid | **(1 260)** | (15 828) | (19 347) |
| Net cash from operating activities | **(80 529)** | 7 829 | 7 202 |
| Purchase of property, plant and equipment | **(1 806)** | (2 394) | (14 344) |
| Sale of property, plant and equipment | **144** | – | 314 |
| Business combinations/acquisition of subsidiary | **–** | (5 354) | (11 653) |
| Loans from related parties advanced/(repaid) | **7 178** | (1 012) | (3 097) |
| Purchase of financial assets | **(41)** | – | (3 484) |
| Net cash from investing activities | **5 475** | (8 760) | (32 264) |
| (Repayment of)/proceeds from financial liabilities | **(24 712)** | (59 502) | (28 800) |
| (Payments on)/inflow from finance lease | **(167)** | 342 | 289 |
| Dividends paid | **(9 197)** | (10 000) | (15 109) |
| Proceeds on loans from directors | **5 330** | – | – |
| Net cash from financing activities | **(28 746)** | (69 160) | (43 620) |
| Total cash movement for the year | **(103 800)** | (70 091) | (68 682) |
| Cash at the beginning of the year | **71 082** | 139 764 | 139 764 |
| Total cash at the end of the year | **(32 718)** | 69 673 | 71 082 |

## SEGMENTAL REPORTING

| | **2011** | | | 2010 | | |
|---|---|---|---|---|---|---|
| | **South Africa R'000** | **Foreign Operations R'000** | **Total R'000** | South Africa R'000 | Foreign Operations R'000 | Total R'000 |
| **Profit and loss** | | | | | | |
| Contract revenue | **202 556** | **184 007** | **386 563** | 126 763 | 121 871 | 248 634 |
| Contract costs | **(214 695)** | **(128 054)** | **(342 749)** | (101 885) | (89 608) | (191 493) |
| **Gross profit** | **(12 139)** | **55 953** | **43 814** | 24 878 | 32 263 | 57 141 |
| Other income | **31** | **–** | **31** | 2 598 | 680 | 3 278 |
| Operating expenses | **(14 569)** | **(10 535)** | **(25 104)** | (18 031) | (503) | (18 534) |
| **Operating profit** | **(26 677)** | **45 418** | **18 741** | 9 445 | 32 440 | 41 885 |
| Investment income | **40** | **–** | **40** | 2 570 | 5 | 2 575 |
| Finance costs | **(1 605)** | **–** | **(1 605)** | (21) | – | (21) |
| **(Loss)/profit before tax** | **(28 242)** | **45 418** | **17 176** | 11 994 | 32 445 | 44 439 |
| **Assets and liabilities** | | | | | | |
| **Total assets** | **283 854** | **132 593** | **416 447** | 145 292 | 192 766 | 338 058 |
| **Total liabilities** | **(103 678)** | **(104 987)** | **(208 665)** | (60 693) | (100 344) | (161 037) |