B&W Instrumentation and Electrical Limited

Audited condensed consolidated results for the year ended 31 August 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 13,7%** ■ Order book **R360 million** ■ Loss after tax **R15,8 million** ■ Loss per share **7,8 cents**

COMMENTARY

Basis of preparation
The accounting policies applied in the preparation of these audited condensed consolidated results ("the results"), 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 annual financial statements for the previous year ended 31 August 2010. The results as set out in this report have been prepared in terms of IAS 34: Interim Financial Reporting, the Companies Act, 2008 (Act 71 of 2008), and the Listings Requirements of JSE Limited.

Audit opinion
The results for the year ended 31 August 2011 ("the year") have been audited by B&W's auditors, Certified Master Auditors Inc. Their unqualified audit opinion is available for inspection at the company's registered office.

Introduction
As indicated, the results for the year reflect a disappointing performance despite an increase in revenue. The year marked the toughest in the group's 38-year history, with significant macro-economic and operational challenges severely impacting performance (see 'Operations' below).

Nonetheless, B&W's resilience and sustainability were clearly affirmed by the successful navigation of the severe cash flow crisis without the assumption of any long-term debt or capital raising initiatives.

The satisfactory order book in hand at year-end of R360 million and the anticipated resumption of positive cash flow before December 2011, will provide the necessary platform to embark on a process of consolidation in the year ahead that should see a return to profitability by end FY2012.

Group profile
B&W is one of South Africa's top three niche providers of Electrical and Instrumentation ("E&I") services and is also 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 to a lesser extent ongoing maintenance.

Financial results
Revenue increased 13,7% to R683,4 million from R601,3 million in the previous year. Cross-border (non-South African) work accounted for 50,5% of group revenue.

Notwithstanding the topline growth, the group recorded a net loss after tax of R15,8 million (Aug 2010: NPAT R57,5 million) and a decline in gross margins from 20,5% to 3,2% for the year. This was mainly attributable to a contract loss incurred in certain foreign contracts and discounts offered to clients to secure some interim payment pending the outcome of final fee negotiations. The latter measure was deemed necessary to manage cash flow. In light of the order book and positive developments in the first quarter of the current year, B&W is targeting a return to profitability by the end of FY2012.

Group operating expenses remained constant. Internal re-organisation for an optimally efficient workforce, including retrenchments will reduce group costs going forward.

The reduction in the cash balance from R71,1 million to a negative R34,5 million at year-end was primarily due to an increased working capital cash flow cycle resulting from growth on projects and protracted final fee negotiations. Although the company's cash flow deteriorated substantially as a result, B&W is expected to be cash neutral and moving to cash positive by December 2011, still without additional long-term debt.

Capital expenditure has been contained for the year and will be minimal for the 2012 year. The group's fleet and equipment are well positioned for the consolidation phase ahead.

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

Funding
During the year B&W changed bankers to Standard Bank in view of their complementary move into Africa and better understanding of the nature of B&W's business. In addition, the group secured overdraft facilities of R50 million in a difficult market.

Operations
Fee negotiations on most major projects delayed final payments and negatively impacted on profit recognition, margins and cash flow. The group was compelled to follow the lengthy claims protocols as set out in the respective contracts. In addition the adverse effect on resources meant B&W was prevented from taking on additional work at times.

The problem contracts have been successfully concluded and/or resolved since year-end.

In contrast, Pontins delivered a strong performance maintaining revenue year-on-year and growing profit.

To counter local pressures B&W continued to aggressively seek work in Africa.

B&W achieved Level 5 B-BBEE status. Ongoing initiatives are aimed at improving this further going forward. B&W also maintained an exemplary safety record, with achievements including the record-breaking 13 million injury free hours on the Sishen project and 4,5 million injury free hours on the Ambatovy Project in Madagascar for the E&I works alone.

Subsequent events
The board of directors is not aware of any material matters or circumstances arising since year-end up to the date of this report.

Prospects
As previously stated the difficult trading and macro-economic conditions in the group's sectors of operation are expected to continue for another 12-18 months, with the start of a slow improvement towards the end of 2012. The construction sector's prospects are closely aligned with the extent and sustainability of global economic recovery, while power generation (and renewable energy) looks promising only if regulatory and environmental issues do not delay or prevent roll-out of projects. Oil & gas offers more steady prospects, although the first signs of growth have yet to translate into significant project volumes.

Leveraging Pontins' client base, core business and foothold, B&W intends to diversify into new revenue streams in the year ahead, namely commercial and infrastructure projects. The focus will remain primarily on Africa, albeit with caution and translating previous experience over the past year into bottom line benefit for the group.

B&W's order book at year-end, although lower than at the previous year-end, is satisfactory given the current economic environment and the group's consolidation phase ahead. Longer-term opportunities should see a recovery in order intake and B&W's pipeline for identified projects therefore remains substantial.

The directors are confident of resuming a cash positive position before the end of the 2011 calendar year and are targeting a return to profitability by the end of FY2012. Key areas of focus for management in the year ahead will be cash flow and operational efficiencies for margin improvement. Any general forecast information included in this commentary has not been reviewed and reported on by the company's auditors.

Directorate
The following changes to the board of directors took place during the year:

Appointments
Stephen Pinkney was appointed as an executive director effective 24 June 2011.

Resignations
Ken Nel resigned as executive director effective 31 January 2011. Neels Minnie and Johan Rall resigned as alternate directors effective 31 March 2011 and 30 April 2011, respectively.

Change in function
During the year John Barrow's designation changed from executive Chairman to non-executive Chairman.

Appreciation
We thank our tenacious management teams and determined employees for their efforts in an extremely challenging year, and our fellow directors for continuing to guide us through. We also thank our business partners, clients and shareholders whose ongoing faith in the group has been inspiring.

John Barrow
Chairman

Brian Harley
Chief Executive Officer

On behalf of the board
14 November 2011

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Audited as at 31 August 2011 R'000	Audited as at 31 August 2010 R'000
ASSETS		
Non-current assets		
Property, plant and equipment	**32 543**	36 939
Goodwill	**7 368**	7 368
Intangible assets	**2 553**	3 404
Investments in subsidiaries	**–**	–
Deferred tax	**10 924**	–
Retention debtors	**–**	15 766
	53 388	63 477
Current assets		
Inventories	**2 547**	3 502
Loans to related parties	**8 904**	3 700
Other financial assets	**3 567**	3 484
Trade and other receivables	**337 407**	319 146
Cash and cash equivalents	**12 876**	71 082
	365 301	400 914
Total assets	**418 689**	464 391
EQUITY AND LIABILITIES		
Equity		
Equity attributable to equity holders of parent		
Share capital	**38 583**	38 583
Foreign currency translation reserve	**500**	315
Retained income	**140 776**	165 970
	179 859	204 868
Non-controlling interest	**459**	216
	180 318	205 084
Liabilities		
Non-current liabilities		
Finance lease obligations	**47**	131
Deferred tax	**–**	11 682
	47	11 813
Current liabilities		
Loans from related parties	**4 862**	1 634
Loans from shareholders	**7 823**	–
Financial liabilities	**17 508**	49 217
Current tax payable	**17 042**	6 841
Finance lease obligations	**52**	158
Trade and other payables	**136 877**	181 079
Provisions	**6 831**	8 565
Bank overdraft	**47 329**	–
	238 324	247 494
Total liabilities	**238 371**	259 307
Total equity and liabilities	**418 689**	464 391
Number of ordinary shares in issue	**204 373 959**	204 373 959
Net asset value per share (cents)	**88,2**	100,4
Net tangible asset value per share (cents)	**83,4**	95,1

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Audited year ended 31 August 2011 R'000	Audited year ended 31 August 2010 R'000
Contract revenue	**683 384**	601 283
Cost of sales	**(661 500)**	(478 158)
Gross profit/(loss)	**21 884**	123 125
Other income	**224**	1 040
Operating expenses	**(45 714)**	(45 855)
Operating (loss)/profit	**(23 606)**	78 310
Investment revenue	**40**	3 567
Finance costs	**(3 619)**	(323)
(Loss)/profit before taxation	**(27 185)**	81 554
Taxation	**11 429**	(24 041)
(Loss)/profit for the year	**(15 756)**	57 513
Other comprehensive income:		
Foreign currency translation reserve movement	**187**	318
Total comprehensive/(loss) income	**(15 569)**	57 831
(Loss)/profit attributable to:		
Owners of the parent	**(15 997)**	57 308
Non-controlling interest	**241**	205
	(15 756)	57 513
(Loss)/profit attributable to:		
Owners of the parent	**(15 997)**	57 308
Adjustment for headline earnings – (profit)/loss on sale of property, plant and equipment	**170**	(14)
Headline (loss)/earnings attributable to ordinary shareholders	**(15 827)**	57 294
Weighted average number of ordinary shares in issue	**204 373 959**	201 275 738
Basic and diluted (loss)/earnings per ordinary share (cents)	**(7,8)**	28,5
Headline (loss)/earnings per ordinary share (cents)	**(7,7)**	28,5

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Audited year ended 31 August 2011 R'000	Audited year ended 31 August 2010 R'000
Cash flows from operating activities		
Cash generated from/(used in) operations	**(63 695)**	23 305
Interest income	**40**	3 567
Finance costs	**(3 619)**	(323)
Tax paid	**(977)**	(19 347)
Net cash from operating activities	**(68 251)**	7 202
Cash flows from investing activities		
Purchase of property, plant and equipment	**(2 168)**	(14 344)
Sale of property, plant and equipment	**215**	314
Business combinations/acquisition of subsidiary	**–**	(11 653)
Loans to related parties repaid	**(1 975)**	(3 097)
Purchase of financial assets	**(83)**	(3 484)
Loan advanced by shareholders	**7 823**	–
Net cash from investing activities	**3 812**	(32 264)
Cash flows from financing activities		
Repayment of other financial liabilities	**(31 709)**	(28 800)
(Outflow)/Inflow from finance leases	**(190)**	289
Dividends paid	**(9 197)**	(15 109)
Net cash from financing activities	**(41 096)**	(43 620)
Total cash movement for the year	**(105 535)**	(68 682)
Cash at the beginning of the year	**71 082**	139 764
Total cash at end of the year	**(34 453)**	71 082

SEGMENTAL REPORTING

	South Africa R'000	**Foreign operations R'000**	**Total R'000**
2011			
Profit and loss			
Contract revenue	**338 390 ***	**344 994 ****	**683 384 *****
Contract costs	**(332 600)***	**(328 900)****	**(661 500)*****
Gross profit	**5 790**	**16 094**	**21 884**
Other income	**224**	**–**	**224**
Operating profit	**6 014**	**16 094**	**22 108**
Investment income	**40**	**–**	**40**
Finance costs	**(3 619)**	**–**	**(3 619)**
Depreciation and amortisation	**(5 949)**	**(1 081)**	**(7 030)**
Operating expenses	**(19 182)**	**(19 502)**	**(38 684)**
Taxation	**15 759**	**(4 330)**	**11 429**
Loss after tax	**(6 937)**	**(8 819)**	**(15 756)**
Assets and liabilities			
Total assets	**321 054**	**97 635**	**418 689**
Total liabilities	**(215 617)**	**(22 754)**	**(238 371)**
Total	**105 437**	**74 881**	**180 318**
2010			
Profit and loss			
Contract revenue	320 142 *	281 141 **	601 283 ***
Contract costs	(263 527)*	(214 631)**	(478 158)***
Gross profit	56 615	66 510	123 125
Other income	1 040	–	1 040
Operating profit	57 655	66 510	124 165
Investment income	3 567	–	3 567
Finance costs	(323)	–	(323)
Depreciation and amortisation	(5 715)	(1 183)	(6 898)
Operating expenses	(20 742)	(18 215)	(38 957)
Taxation	(6 095)	(17 946)	(24 041)
Profit after tax	28 347	29 166	57 513
Assets and liabilities			
Total assets	412 525	51 866	464 391
Total liabilities	(228 759)	(30 548)	(259 307)
Total	183 766	21 318	205 084

* *South African segment sales and cost of sales have been reduced by R24,1 million (2010: R9,8 million) and R32,6 million (2010: R9,8 million) respectively, due to intersegment sales.*

** *Foreign operations segment sales and cost of sales have been reduced by R32,6 million (2010: R9,8 million) and R24,1 million (2010: R9,8 million) respectively, due to intersegment sales.*

*** *Included above are intercompany sales of R56,7 million (2010: R9,8 million) and cost of sales of R56,7 million (2010: R9,8 million).*

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

R'000	Share capital	Share premium	Treasury shares	Total share capital	Foreign currency translation reserve	Total reserves	Retained income	Total attributable to equity holders of the group	Non-controlling interest	Total equity
Group										
Balance at 1 September 2009	**2**	**43 552**	**(11 269)**	**32 285**	**–**	**32 285**	**123 771**	**156 056**	**8**	**156 064**
Changes in equity										
Total comprehensive income for the year	–	–	–	–	315	315	57 308	57 623	208	57 831
Issue of shares	–	6 298	–	6 298	–	6 298	–	6 298	–	6 298
Dividends	–	–	–	–	–	–	(15 109)	(15 109)	–	(15 109)
Total changes	–	6 298	–	6 298	315	6 613	42 199	48 812	208	49 020
Balance at 1 September 2010	**2**	**49 850**	**(11 269)**	**38 583**	**315**	**38 898**	**165 970**	**204 868**	**216**	**205 084**
Changes in equity										
Total comprehensive loss for the year	–	–	–	–	185	185	(15 997)	(15 812)	243	(15 569)
Dividends	–	–	–	–	–	–	(9 197)	(9 197)	–	(9 197)
Total changes	–	–	–	–	185	185	(25 194)	(25 009)	243	(24 766)
Balance at 31 August 2011	**2**	**49 850**	**(11 269)**	**38 583**	**500**	**39 083**	**140 776**	**179 859**	**459**	**180 318**

Directors:
John Barrow* (Chairman); Brian Harley (CEO); Danie Evert (Financial Director); Johan Breedt; Tom Lombard; Dean Nevay; Stephen Pinkney; 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