

Preliminary condensed consolidated audited financial results

for the year ended 31 August 2010

B & W Instrumentation and Electrical Limited
Incorporated in the Republic of South Africa
(Registration number 2001/00854/06)
Share code: BWI ISIN: ZAE00098687
("B&W" or "the company" or "the group")

■ Revenue up **19,6%** ■ Order book **R523 million** ■ Net profit margin **9,6%** ■ Cash positive **R71,1 million** ■ No interest-bearing debt

Commentary

Basis of preparation

The accounting policies applied in the preparation of these preliminary condensed audited annual financial statements, which are based on reasonable judgements 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 2009. These preliminary condensed audited annual financial statements as set out in this report have been prepared in terms of IAS 34: Interim Financial Reporting, the Companies Act (Act 61 of 1973), as amended, the AC 500 Standards and the Listings Requirements of the JSE Limited.

Audit opinion

The preliminary condensed annual financial statements for the year have been audited by B&W's auditors, Certified Master Auditors Inc. Their unqualified audit report is available for inspection at the company's registered office.

Introduction

The directors of B&W are pleased to present the preliminary condensed consolidated audited financial results for the year ended 31 August 2010 ("the year"), which reflect B&W's resilience in the face of tough trading conditions. Despite reduced levels of activity in the construction industry, the group recorded satisfactory results. B&W ended the year with a strong balance sheet reflecting no long-term debt and a substantial positive cash balance.

The group successfully weathered pressure on margins in the wake of the global recession through ongoing project work in Africa, where the mining industry in particular continues to offer promising opportunity. The results were boosted by a significant proportion of work – which had been previously postponed due to the economic downturn – being brought to account during the year. In addition, initial recovery towards the end of the year in B&W's target sectors in South Africa had a further positive effect.

The acquisition of earthing, lightning and surge protection specialist Pontins (Pty) Ltd ("Pontins") was finalised during the year. As part of the acquisition intangible assets amounting to R4,3 million

were acquired and goodwill arising on the transaction totalled R7,4 million. The carrying amount of intangible assets after amortisation is disclosed in the statements of financial position. Pontins' results have been incorporated into these group results.

During the year B&W received 9EB accreditation from the Construction Industry Development Board (CIDB) enabling the group to participate in public sector works of unlimited size and value.

Group profile

The group is one of South Africa's top three niche providers of electrical and instrumentation ("E&I") services as well as specialist earthing, lightning and surge protection solutions to the oil & gas, infrastructure, industrial, utilities, mining, chemical and food & beverage industries across sub-Saharan Africa. Services include equipment procurement, project supervision, installation, post-installation commissioning and to a lesser degree ongoing maintenance.

Financial results

Group revenue increased 19,6% to R601,3 million (2009: R502,8 million) due to the materialisation of previously postponed orders, as well as new contracts secured. Challenging trading conditions slightly depressed the gross profit margin to 20,5% (2009: 21,0%).

Group operating expenses rose 45,5% to R45,9 million (2009: R31,5 million). This amount includes once-off costs in respect of the acquisition of Pontins as well as Pontins' operating costs. Excluding the once-off costs the increase is commensurate with the increase in turnover and normal inflationary pressure.

Group profit before taxation ("PBT") amounted to R81,6 million (2009: R82,9 million) and net profit after tax attributable to ordinary shareholders totalled R57,3 million (2009: R59,2 million). Group earnings declined slightly to 28,5 cents per share (2009: 29,6 cents per share) in line with the drop in net profit after tax ("NPAT") and due to the dilution of additional shares issued for the Pontins acquisition.

Cross-border contracts accounted for R281,1 million, or 46,8% of revenue and R66,5 million of gross profit equating to approximately 54,0% of total gross profit reported.

The cash balance of R140 million at the beginning of the year halved to R71,1 million at year-end, primarily as a result of increased debtors and work in progress as well as a reduction in upfront payments. Capital expenditure in the ordinary course of business, the acquisition of Pontins, and the payment of the interim dividend further contributed to this decrease.

Health & safety

B&W prides itself on excellence in maintaining health and safety standards. This commitment is clearly reflected in the achievement during the year of the milestone 1 000 000 accident-free hours on a B&W site.

Prospects

The after-effects of the recession are anticipated to impact the construction industry for at least another 18 months. The board believes it may take even longer to return to the activity levels of 2007/8. However, recent price increases in some commodities may prove this time horizon overly-pessimistic.

At year-end B&W carried over work in hand to the value of R433 million as well as anticipated annuity income of R90 million, the majority of which is scheduled for completion in the year ahead prior to August 2011 with no expected delays.

A slow recovery in orders, supported by a focused marketing effort is positioning the group to sustain top line growth. However, profit margins are expected to remain tight for the foreseeable future and management is focusing on operational efficiencies, which are critical to maintaining cash flow and ensuring reasonable returns in a lower margin environment.

Looking beyond FY2011 B&W's identified pipeline of projects is substantial. The majority of these projects are in the mining industry and are currently in the feasibility stage. Commencement time-frames will be dependent on global resource pricing and the extent of risk appetite in the financial sector.

The discovery of new oil and gas reserves in a number of African countries as well as the proposed refineries in South Africa, Angola and Mozambique present further opportunities for the

group, although the latter is expected to have an impact only from 2013 onwards.

Recent developments in the regulatory framework of the South African power generation industry could expose opportunity for private sector participation and open a further avenue for growth.

Subsequent events

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

Dividend

Company policy is to declare a dividend equal to 25% of NPAT, cash flow permitting. In light of the cash balance on hand at year-end as well as the company's long-term interest-bearing debt free record, the directors feel that there is no need to deviate from this policy and have declared a final dividend of 4,5 cents per share (2009: 5 cents per share). This, together with the interim dividend of 2,5 cents per share, maintains the company's stated dividend policy.

The salient dates for the dividend are as follows:

Last day to trade shares <i>cum</i> dividend	Friday, 3 December 2010
Shares trade <i>ex</i> dividend	Monday, 6 December 2010
Record date	Friday, 10 December 2010
Payment date	Monday, 13 December 2010

No share certificates may be dematerialised or rematerialised between Monday, 6 December 2010 and Friday, 10 December 2010, both dates inclusive.

John Barrow Chairman
Brian Harley Chief Executive Officer

On behalf of the board
16 November 2010

Consolidated statements of financial position

	Audited 31 August 2010 R'000	Audited Restated 31 August 2009 R'000	Audited Restated 31 August 2008 R'000
ASSETS			
Non-current assets	63 477	50 580	24 309
Property, plant and equipment	36 939	27 362	10 561
Deferred tax	–	3 041	–
Goodwill	7 368	–	–
Intangible assets	3 404	–	–
Retention debtors	15 766	20 177	13 748
Current assets	400 914	331 442	236 941
Inventories	3 502	2 084	4 690
Loans to related parties	3 700	–	940
Other financial asset	3 484	–	–
Trade and other receivables	319 146	189 594	120 684
Cash and cash equivalents	71 082	139 764	110 627
Total assets	464 391	382 022	261 250
EQUITY AND LIABILITIES			
Equity	205 084	156 064	111 779
Share capital	38 583	32 285	32 285
Foreign currency translation reserve	315	–	–
Retained income	165 970	123 771	79 494
Non-controlling interest	216	8	–
Non-current liabilities	11 813	10 649	11 608
Finance lease obligation	131	–	–
Deferred tax	11 682	10 649	11 608
Current liabilities	247 494	215 309	137 863
Loans from related parties	1 634	1 030	1 185
Financial liabilities	49 217	78 017	–
Current tax payable	6 841	6 065	18 130
Trade and other payables	181 079	126 295	116 718
Finance lease obligation	158	–	–
Provisions	8 565	3 902	1 830
Total equity and liabilities	464 391	382 022	261 250
Number of ordinary shares in issue	204 373 959	200 000 000	200 000 000
Net asset value per share (cents)	100,35	78,03	55,89
Net tangible asset value per share (cents)	95,08	78,03	55,89

Consolidated statements of comprehensive income

	Audited 31 August 2010 R'000	Audited 31 August 2009 R'000
Contract revenue	601 283	502 840
Cost of contracts	(478 158)	(397 062)
Gross profit	123 125	105 778
Other income	1 040	1 279
Operating expenses	(45 855)	(31 506)
Operating profit	78 310	75 551
Investment revenue	3 567	7 750
Finance costs	(323)	(386)
Profit before taxation	81 554	82 915
Taxation	(24 041)	(23 631)
Profit for the year	57 513	59 284
Other comprehensive income		
Foreign currency translation reserve	318	–
Total comprehensive income	57 831	59 284
Profit attributable to:		
Owners of the parent	57 308	59 277
Non-controlling interest	205	7
	57 513	59 284
Total comprehensive income attributable to:		
Owners of the parent	57 623	59 277
Non-controlling interest	208	7
	57 831	59 284
Profit attributable to:		
Owners of the parent	57 308	59 277
Adjustment for headline earnings – (profit)/loss on sale of property, plant and equipment	(14)	236
Headline earnings attributable to ordinary shareholders	57 294	59 513
Weighted average number of ordinary shares in issue	201 275 738	200 000 000
Earnings per ordinary share (cents)	28,5	29,6
Headline earnings per ordinary share (cents)	28,5	29,8

Consolidated statements of changes in equity

R'000	Share capital	Share premium	Treasury shares	Foreign currency translation reserve	Retained income	Minority interest	Total equity
Balance at 1 September 2007	2	32 283	–	–	32 658	–	64 943
Total comprehensive income for the year	–	–	–	–	57 836	–	57 836
Dividends	–	–	–	–	(11 000)	–	(11 000)
Issue of share capital	–	6 703	–	–	–	–	6 703
Treasury shares	–	–	(6 703)	–	–	–	(6 703)
Balance at 31 August 2008	2	38 986	(6 703)	–	79 494	–	111 779
Total comprehensive income for the year	–	–	–	–	59 277	8	59 285
Issue of share capital	–	4 566	–	–	–	–	4 566
Treasury shares	–	–	(4 566)	–	–	–	(4 566)
Dividends	–	–	–	–	(15 000)	–	(15 000)
Balance at 31 August 2009	2	43 552	(11 269)	–	123 771	8	156 064
Total comprehensive income for the year	–	–	–	315	57 308	208	57 831
Issue of share capital	–	6 298	–	–	–	–	6 298
Dividends	–	–	–	–	(15 109)	–	(15 109)
Balance at 31 August 2010	2	49 850	(11 269)	315	165 970	216	205 084

Directors:

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

*Non-executive director ^Independent

Registered office:

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

Consolidated statements of cash flows

	Audited 31 August 2010 R'000	Audited 31 August 2009 R'000
Cash generated from operations	23 305	17 945
Interest income	3 567	7 750
Finance costs	(323)	(387)
Tax paid	(19 347)	(39 695)
Net cash from operating activities	7 202	(14 387)
Purchase of property, plant and equipment	(14 344)	(20 592)
Sale of property, plant and equipment	314	313
Business combinations	(11 653)	–
Loans to related parties repaid	(3 097)	(1 183)
Proceeds from loans from group companies	–	1 969
Purchase of financial assets	(3 484)	–
Net cash from investing activities	(32 264)	(19 493)
(Repayment of) proceeds from other financial liabilities	(28 800)	78 017
Inflow from finance lease	289	–
Dividends paid	(15 109)	(15 000)
Net cash from financing activities	(43 620)	63 017
Total cash movement for the year	(68 682)	29 137
Cash at the beginning of the year	139 764	110 627
Total cash at end of the year	71 082	139 764

Segmental reporting

	South Africa R'000	Foreign operations R'000	Total R'000
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)
2009			
Profit and loss			
Contract revenue	351 841	150 999	502 840
Contract costs	(263 770)	(133 292)	(397 062)
Gross profit	88 071	17 707	105 778
Other income	525	754	1 279
Operating profit	88 596	18 461	107 057
Investment income	7 708	42	7 750
Finance costs	(159)	(227)	(386)
Depreciation and amortisation	(2 137)	(1 103)	(3 240)
Operating expenses	(19 778)	(8 488)	(28 266)
Taxation	(18 836)	(4 795)	(23 631)
Profit after tax	55 394	3 890	59 284
Assets and liabilities			
Total assets	240 226	141 796	382 022
Total liabilities	(138 476)	(87 482)	(225 958)

Notes

Deferred taxation

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 reported previously.

The effects of the reclassification are as follows:-

	Group	
Statement of financial position	2009	2008
Deferred tax – current	9 967	11 051
Deferred tax – non-current	(9 967)	(11 051)

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 year under review to areas of risk and this has necessitated a change to the disclosures made under the segmental reporting note.

Designated adviser:

Merchantec Capital

Transfer secretaries:

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

Company secretary:

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

Investor relations:

Envisage Investor & Corporate Relations