



Howden



REVIEWED FINANCIAL RESULTS

for the year ended 31 December 2009



Howden

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Condensed consolidated statement of comprehensive income

for the year ended 31 December 2009

| | 31 December 2009 (Reviewed) R'000 | Change % | 31 December 2008 (Restated) R'000 |
|--|--|-------------|--|
| Revenue | 976 332 | 20,0 | 813 625 |
| Operating profit | 129 480 | 35,9 | 95 273 |
| Net finance income | 5 222 | | 3 322 |
| Profit before income tax | 134 702 | 36,6 | 98 595 |
| Income tax expense | (34 481) | | (38 186) |
| Profit for the year | 100 221 | 65,9 | 60 409 |
| Other comprehensive income | | | |
| Currency translation differences | – | | (924) |
| Pension fund plan surplus | 20 112 | | 3 842 |
| Income tax relating to components of other comprehensive income | (5 631) | | (1 076) |
| Other comprehensive income for the year, net of tax | 14 481 | | 1 842 |
| Total comprehensive income for the year attributable to equity holders of the Company | 114 702 | | 62 251 |

Condensed consolidated statement of financial position

as at 31 December 2009

| | 31 December 2009 (Reviewed) R'000 | 31 December 2008 (Restated) R'000 | 1 January 2008 (Restated) R'000 |
|---|--|--|--|
| ASSETS | | | |
| Non-current assets | 202 109 | 174 459 | 125 904 |
| Property, plant and equipment and intangible assets | 121 219 | 114 607 | 102 150 |
| Pension fund plan surplus | 25 334 | 6 484 | – |
| Cash and cash equivalents | 18 313 | 16 971 | – |
| Other non-current assets | 37 243 | 36 397 | 23 754 |
| Current assets | 481 896 | 418 593 | 266 867 |
| Inventories | 144 701 | 137 060 | 85 327 |
| Trade and other receivables | 235 780 | 229 165 | 161 638 |
| Cash and cash equivalents | 101 415 | 52 368 | 19 902 |
| TOTAL ASSETS | 684 005 | 593 052 | 392 771 |
| EQUITY | | | |
| Capital and reserves | | | |
| Shareholders' funds | 170 174 | 73 218 | 93 127 |
| LIABILITIES | | | |
| Non-current liabilities | 71 253 | 108 217 | 31 096 |
| Current liabilities | 442 578 | 411 617 | 268 548 |
| TOTAL LIABILITIES | 513 831 | 519 834 | 299 644 |
| TOTAL EQUITY AND LIABILITIES | 684 005 | 593 052 | 392 771 |

Condensed consolidated statement of changes in equity

for the year ended 31 December 2009

| | Share capital R'000 | Retained earnings R'000 | Pension fund plan surplus R'000 | Foreign currency translation reserve R'000 | Total R'000 |
|---|---------------------------|-------------------------------|--|--|----------------|
| Balance at 1 January 2008 | 657 | 93 969 | – | (1 499) | 93 127 |
| Total comprehensive income for the year attributable to equity holders of the Company | – | 60 409 | 2 766 | (924) | 62 251 |
| Dividends paid | – | (82 160) | – | – | (82 160) |
| Balance at 31 December 2008 | 657 | 72 218 | 2 766 | (2 423) | 73 218 |
| Balance at 1 January 2009 | 657 | 72 218 | 2 766 | (2 423) | 73 218 |
| Total comprehensive income for the year attributable to equity holders of the Company | – | 100 221 | 14 481 | – | 114 702 |
| Reclassification of currency translation reserve | – | (2 423) | – | 2 423 | – |
| Dividends paid | – | (17 746) | – | – | (17 746) |
| Balance at 31 December 2009 | 657 | 152 270 | 17 247 | – | 170 174 |

Other group salient features

for the year ended 31 December 2009

| | 31 December 2009 (Reviewed) R'000 | Change % | 31 December 2008 (Restated) R'000 |
|--|--|-------------|--|
| Net asset value per share (cents) | 258,90 | | 111,39 |
| Depreciation | 5 423 | | 3 511 |
| Amortisation | 2 150 | | 2 167 |
| Capital expenditure | 14 963 | | 18 879 |
| Capital commitments | | | |
| – Authorised and contracted | 570 | | 2 842 |
| Number of shares in issue (000's) | 65 729 | | 65 729 |
| Earnings per share (cents) | 152,48 | 65,9 | 91,91 |
| Headline earnings per share (cents) | 152,50 | 64,5 | 92,72 |
| Dividends per share | | | |
| – dividend paid (cents) | 15,00 | | 15,00 |
| – special dividend paid (cents) | – | | 100,00 |
| – interim dividend paid (cents) | 12,00 | | 10,00 |
| Reconciliation of headline earnings attributable to the equity holders of the Company | | | |
| Net profit attributable to equity holders | 100 221 | | 60 409 |
| Loss on disposal of property, plant and equipment | 19 | | 532 |
| Headline earnings attributable to equity holders | 100 240 | 64,5 | 60 941 |

Condensed consolidated statement of cash flows

for the year ended 31 December 2009

| | 31 December 2009 (Reviewed) R'000 | Change % | 31 December 2008 (Restated) R'000 |
|---|--|-------------|--|
| Cash flow from operating activities | | | |
| Cash generated from operations | 146 060 | | 144 904 |
| Interest paid | (9 460) | | (9 988) |
| Income tax paid | (68 943) | | (29 105) |
| Net cash generated from operating activities | 67 657 | | 105 811 |
| Cash flow from investing activities | | | |
| Interest received | 14 682 | | 13 310 |
| Purchases of property, plant and equipment and intangible assets | (14 963) | | (18 879) |
| Proceeds from disposal of property, plant and equipment and intangible assets | 759 | | 212 |
| Net cash generated from/(used in) investing activities | 478 | | (5 357) |
| Cash flow from financing activities | | | |
| Proceeds from borrowings | – | | 31 143 |
| Dividends paid | (17 746) | | (82 160) |
| Net cash used in financing activities | (17 746) | | (51 017) |
| Net increase in cash and cash equivalents | 50 389 | | 49 437 |
| Cash and cash equivalents at the beginning of the year | 69 339 | | 19 902 |
| Cash and cash equivalents at the end of the year | 119 728 | | 69 339 |

Segmental analysis by operating division

for the year ended 31 December 2009

| | 31 December 2009 (Reviewed) R'000 | Change % | 31 December 2008 (Restated) R'000 |
|-------------------------------|--|-------------|--|
| Revenue | | | |
| Fans and Heat Exchangers | 605 997 | | 551 492 |
| Environmental Control | 370 335 | | 262 133 |
| | 976 332 | 20,0 | 813 625 |
| Orders received | | | |
| Fans and Heat Exchangers | 751 114 | | 849 264 |
| Environmental Control | 239 337 | | 406 976 |
| | 990 451 | (21,2) | 1 256 240 |
| Operating profit | | | |
| Fans and Heat Exchangers | 103 220 | | 81 002 |
| Environmental Control | 32 136 | | 16 836 |
| | 135 356 | | 97 838 |
| Central operations | (5 876) | | (2 565) |
| Total operating profit | 129 480 | 35,9 | 95 273 |
| Inter-segmental sales | | | |
| Fans and Heat Exchangers | 45 375 | | 59 339 |
| Environmental Control | 20 040 | | 18 559 |
| | 65 415 | (16,0) | 77 898 |

The effect of the restatements on prior year financial statements is as follows

Condensed consolidated statement of financial position

as at 31 December 2008

| | Note | As previously reported 31 December 2008 R'000 | Restatements R'000 | Restated 31 December 2008 R'000 |
|--|-------|--|-----------------------|--|
| Amounts due from customers for contract work (non-current) | 2 | 24 875 | (24 875) | – |
| Amounts due from customers for contract work (current) | 2 | 41 089 | 18 326 | 59 415 |
| Inventories | 2 | 44 816 | 92 244 | 137 060 |
| Pension fund plan surplus | 1 | – | 6 484 | 6 484 |
| Shareholders' funds | 1 & 2 | 65 706 | 7 512 | 73 218 |
| Deferred income tax liabilities | 1 | 5 118 | 2 922 | 8 040 |
| Amounts due to customers for contract work (non-current) | 2 | 74 550 | (48 139) | 26 411 |
| Amounts due to customers for contract work (current) | 2 | 100 339 | 10 965 | 111 304 |
| Trade and other payables (current) | 2 | 165 961 | 102 027 | 267 988 |
| Trade and other payables (non-current) | 2 | – | 16 892 | 16 892 |

Condensed consolidated statement of comprehensive income

for the year ended 31 December 2008

| | Note | As previously reported 31 December 2008 R'000 | Restatements R'000 | Restated 31 December 2008 R'000 |
|---------------------|-------|--|-----------------------|--|
| Revenue | 2 | 849 795 | (36 170) | 813 625 |
| Operating profit | 1 & 2 | 95 833 | (560) | 95 273 |
| Income tax expense | 1 & 2 | (38 414) | 228 | (38 186) |
| Profit for the year | 1 & 2 | 60 741 | (332) | 60 409 |

Condensed consolidated statement of financial position

as at 1 January 2008

| | Note | As previously reported 1 January 2008 R'000 | Restatements R'000 | Restated 1 January 2008 R'000 |
|--|-------|--|-----------------------|--|
| Amounts due from customers for contract work (current) | 2 | 74 860 | (27 868) | 46 992 |
| Inventories | 2 | 32 197 | 53 130 | 85 327 |
| Shareholders' funds | 1 & 2 | 88 049 | 5 078 | 93 127 |
| Deferred income tax liabilities | 1 & 2 | 5 342 | 2 074 | 7 416 |
| Amounts due to customers for contract work (current) | 2 | 138 941 | (52 530) | 86 411 |
| Trade and other payables (current) | 2 | 99 498 | 70 640 | 170 138 |

Impact of the restatements

1. Defined benefit pension fund

| | 31 December 2008 R'000 |
|---|------------------------------|
| Statements of financial position | |
| Increase in pension fund surplus | 6 484 |
| Increase in deferred tax liability | (1 816) |
| Increase in pension fund plan surplus taken to equity | (2 766) |
| Increase in retained earnings | (1 902) |
| Statements of comprehensive income | |
| Decrease in administrative expenses | 2 642 |
| Increase in income tax expense | (740) |
| Increase in profit for the year | 1 902 |
| Increase in basic earnings per share – cents | 2,89 |
| Increase in headline earnings per share – cents | 2,89 |

2. Contract accounting

| | 31 December 2008 R'000 | 1 January 2008 R'000 |
|---|------------------------------|----------------------------|
| Statements of financial position | | |
| Decrease in amounts due from customers for contract work (non-current) | (24 875) | – |
| Increase/(decrease) in amounts due from customers for contract work (current) | 18 326 | (27 868) |
| Increase in inventories | 92 244 | 53 130 |
| Increase in deferred tax liability | (1 106) | (2 074) |
| Decrease in amounts due to customers for contract work (non-current) | 48 139 | – |
| (Increase)/decrease in amounts due to customers for contract work (current) | (10 965) | 52 530 |
| Increase in trade and other payables (current) | (102 027) | (70 640) |
| Increase in trade and other payables (non-current) | (16 892) | – |
| Increase in retained earnings | (2 844) | (5 078) |
| Statements of comprehensive income | | |
| Decrease in revenue | (36 170) | |
| Decrease in cost of sales | 32 968 | |
| Decrease in income tax expense | 968 | |
| Decrease in profit for the year | (2 234) | |
| Decrease in basic earnings per share – cents | (3,39) | |
| Decrease in headline earnings per share – cents | (3,39) | |

CHANGE IN ACCOUNTING POLICIES

1. PENSION AND PROVIDENT BENEFIT

The Group early adopted AC 504 – IAS 19 (AC 116) The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction in the South African Pension Fund Environment. The effective date for AC 504 is financial periods starting on or after 1 April 2009, however the Group elected the early adoption as this guidance was published before the Group's year-end and seeks to clarify an existing accounting pronouncement. The early adoption resulted in the Group recognising its defined benefit surplus as an asset, retrospectively. AC 504 required the Group to assess whether it had an unconditional right to the surplus. As the Rules of the Fund were amended in 2008 to apportion future surplus's to the employer, the surplus in the pension fund should be recognised in the statement of financial position.

In addition the Group changed its accounting policy in accordance with the allowed alternative in IAS 19 *Employee Benefits* to recognise actuarial gains and losses on the Group's defined benefit pension fund. As a result of this change in accounting policy, any adjustments to the surplus or deficit by applying the limit to the asset in accordance with IAS 19 *Employee Benefits* will also be recognised in other comprehensive income. This new policy results in more relevant information on the Group's performance by removing the volatility from changes in actuarial assumptions and reserves.

2. CONTRACT ACCOUNTING

IFRIC 15 – Agreements for the Construction of Real Estate, which became effective during the current year, clarifies how to determine whether an agreement is within the scope of IAS 11 – *Construction Contracts* or IAS 18 – *Revenue* and when revenue from construction should be recognised. The Group has reviewed all of its contract classifications and determined that some contracts previously classified as construction contracts under IAS 11 have now been classified as sale of goods and services under IAS 18.

Commentary

It is pleasing to report an excellent set of results for the year ended 31 December 2009. Earnings per share attributable to equity holders of the Company increased to 152,48 cents per share (2008: 91,91 cents per share), an increase of 65,9%.

OVERVIEW

Although the economy experienced negative growth over the first two quarters of 2009 there appear to be signs of a bottoming out from the recession with moderate growth forecast in 2010. Under these circumstances it is pleasing to report that the Company has been able to hold the order book at levels close to those that were reported at the beginning of 2009.

In 2009 revenue of R976,3 million is reported compared to R813,6 million in 2008, an increase of 20,0%, and operating profit has increased by 35,9% to R129,5 million (2008: R95,3 million). Improved project margins in both divisions, and strong increases in revenue achieved in the Environmental Control division, have contributed to profit margins above those reported last year.

Of considerable importance to the Group was the extent of our inclusion in Eskom's new build programme. This has resulted in sustainability of business given that work on Eskom's return to service programme has started to decline. Another important issue for the Group has been the execution of the contract for the supply and erection of a dedusting system at ArcelorMittal. Progress to date on this project gives encouragement that the Environmental Control division has delivered a project which could lead to further opportunities nationally and internationally in due course.

RESULTS

Profit before tax of R134,7 million (2008: R98,6 million) is reported, higher revenue volumes and margins being achieved in both operating divisions. Net financial income of R5,2 million compares to R3,3 million reported last year, a favourable outcome reflecting strong operating cash flow generation by Group companies.

A tax charge of R34,5 million (2008: R38,2 million) has been accrued, equivalent to 25,6% (2008: 38,7%) of profit before tax. The higher charge in 2008 included an STC amount of R6,6 million paid in respect of the special dividend of R65,7 million. The charge for 2009 has also benefited from an amount of R5 million allowed by the authorities for the write-off of intellectual property acquired when the Company listed in 1996.

The comparisons below refer to the corresponding year to December 2008:

- Order intake amounted to R990 million compared to R1 256 million in the corresponding period.
- Operating profit of R129,5 million compared to R95,3 million.
- Earnings per share of 152,48 cents compared to 91,91 cents.
- At 31 December 2009 the Group's cash less borrowings resulted in a net cash position of R68,6 million compared to R17,6 million last year.

ACCOUNTING POLICIES

The condensed annual financial statements for the year ended 31 December 2009 have been prepared in accordance with International Financial Reporting Standards (IFRS), IAS 34 Interim Financial Reporting, JSE Listings Requirements and the Companies Act of South Africa. The accounting policies are consistent with those applied in the prior year annual financial statements, except for the changes in accounting policies as noted in the restatement section above.

REVIEW OF OPERATIONS

FANS AND HEAT EXCHANGERS

Order intake for fans and heat exchangers totalled R751 million, which represents 76% of the total order intake, compared to R849 million the previous year.

The standard fan business produced a solid performance in a very competitive market, achieving profit margins in line with expectations. It is pleasing to report that the business also achieved success in

obtaining certification against the OHSAS 18001 occupational health and safety management standard, and the international environmental standard ISO 14001. Tender activity has remained high through the year and certain capital projects, previously postponed, have been released for updated pricing and should offer opportunity through 2010.

A sharp drop in commodity prices during the second half of 2008 raised concerns that the platinum mining and industrial metals processing markets would be difficult in 2009. The business unit focused on this market therefore concentrated its efforts on the coal and gold mining markets where conditions appeared more favourable. These efforts, coupled with a drive to increase aftermarket business, resulted in improved profitability being reported in the year. Good progress was also achieved in the production of cooling tower fans connected to Eskom's new build programme. Assuming no unforeseen postponements to the aforesaid programme, and success in converting select new build opportunities, performance levels in this business should at least be maintained.

Negotiations for a five year National Draught Plant Framework Agreement with Eskom were successfully concluded during the year. The agreement covers the supply of general spares and maintenance on air heaters and draught plant fans installed at Eskom's coal fired power stations, and replaces individual contracts previously in place at the respective stations. This will allow a more focused effort on skills development and training to support Eskom's drive to improve efficiencies and plant availability.

The return to service (RTS) and capacity increase projects within Eskom provided continuous support for the aftermarket business within the power generation industry. The RTS programme is nearing completion but it is planned to replace this business with increased aftermarket activity and the new build programme connected to Medupi and Kusile power stations.

Strong order book levels have been maintained through the year, and although there is evidence of some margin slippage due to product mix, existing prospects support the view that another good year of earnings should be forthcoming in the fans and heat exchangers division in 2010.

ENVIRONMENTAL CONTROL

The environmental control division recorded orders of R239 million, representing 24% of the total order intake, compared to R407 million in the previous year. The domestic economy experienced negative growth over the first two quarters of 2009 and this raised challenges for the Environmental Control division which started the year with a strong order book but witnessed a decline through the year.

The division made good progress in executing the order received from ArcelorMittal for the supply and erection of a meltshop dedusting system, the first of its kind to be installed in South Africa. The gas cleaning market, however, proved to be difficult through the year with many industrial plants having scaled back production, thereby postponing the need for addressing issues of an environmental nature. Environmental legislation will continue to call for an increase in cleaning standards and the Group remains optimistic that the dust extraction and gas treatment technologies in our possession will play an active part in meeting future requirements.

As the division is run as a project management business, resources fluctuate according to order book levels and available prospects. Difficult trading conditions have been experienced but the business remains optimistic about emerging opportunities. Orders have recently been converted connected to deep level mine cooling and work continues in developing further prospects in this market.

The division has increased its base of earnings substantially over the last two years. Although challenges exist in building its order book and identifying future opportunities, a number of prospects are developing which could materially alter the position for the better over the coming year. The division has, however, realistically budgeted for a tough year taking into account the nature of prospects being targeted and the length of time needed to convert them.

OUTLOOK

The Group has reported material improvements in results over the last three years, with record earnings reported for 2009. Initiatives taken over the recent past, and the successful completion of certain large value contracts, have contributed to this improvement. This raises challenges in maintaining a higher base of earnings given market uncertainties being experienced worldwide. Firming commodity prices,

and a moderate recovery in industrial production, would give support to the Group remaining cautiously optimistic looking ahead.

DIVIDENDS

The Directors have resolved to declare a final dividend of 20 cents per share payable to shareholders for the year ended 31 December 2009. The last date to trade *cum* dividend is Friday, 16 April 2010. Shares start trading *ex* dividend on Monday, 19 April 2010. The record date is Friday, 23 April 2010. Payment will be on Monday, 26 April 2010. No share certificates are to be dematerialised or rematerialised between Monday, 19 April 2010 and Friday, 23 April 2010, both days inclusive.

DIRECTORATE

There were no changes in directorate during the year.

REVIEWED RESULTS

PricewaterhouseCoopers Inc., the Group's independent auditors, have reviewed the condensed consolidated financial statements for the year ended 31 December 2009, that comprise the condensed consolidated statement of financial position as at 31 December 2009, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity, and condensed consolidated statement of cashflows for the year then ended and have expressed an unqualified opinion on these reviewed condensed consolidated financial statements. The review report is available for inspection at the Company's registered office.

For and on behalf of the Board of Directors

RJ Cleland

Chairman

T Bärwald

Chief Executive Officer

30 March 2010

Directors:

RJ Cleland (*Chairman*)^{***}, T Bärwald (*Chief Executive Officer*)[†]
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Howden

www.howden.com

(Incorporated in the Republic of South Africa)
(Registration number 1996/002982/06)
Share code: HWN ISIN: ZAE 000010583
("the Company" or "the Group")