

SUMMARISED AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2017





OUR VISION

Our vision is to be Africa's leading applications engineer, providing lifetime solutions in air and gas-handling.

Highlight for **2017** when compared to the corresponding period in 2016 is:

REVENUE

R1 743.0m

+8.6%

OPERATING PROFIT

R316.2m

+27.7%

Howden Africa is a market-driven, customer-orientated company. Its main business activities are the design, manufacture and marketing of specialised air and gas-handling solutions for a wide range of industries. The Group supplies major industries including petrochemical, mining, iron and steel, cement and water treatment.

Howden Africa is also a distributor of ESAB welding and cutting equipment and consumables.

Howden Africa is committed to environmental awareness. Accordingly, all product designs and manufacturing are scrutinised for environmental friendliness. Design and drawing activities are computerised and manufacturing is concentrated on producing key components. Manufacturing facilities are located in Booysens (Johannesburg) and Struandale (Port Elizabeth).

OVERVIEW OF FINANCIAL PERFORMANCE

The overall 2017 performance for the Group has been positive with growth both in revenue and operating profit margin. The growth was driven by both the Fabrication Technology division starting to see market share growth, although not at the rate anticipated for the year, and an improvement in project execution and management in the Environmental Control division.

ORDERS

Orders received during 2017 increased by 9.3% to R1 719.7 million compared to the corresponding period (2016: R1 572.7 million).

The closing order book for 2017 has fallen to R711.8 million (2016: R770.4 million) as large projects are completed in the year. The aftermarket order book has increased by 4.0% resulting from retrofit orders received in the 2017 period. New build order book has reduced 23.8% as large projects have been completed in the year.

Environmental Control division order intake reduced by 19.9% to R192.1 million compared to the corresponding period (2016: R239.9 million). The division continues to have a large opportunity list.

Fans and Heat Exchangers division orders received during 2017 have increased by 14.3% to R1 415.2 million compared to the corresponding period (2016: R1 238.3 million). The increase has been driven by new build activity in areas outside of South Africa, retrofit projects and maintenance agreements signed in the period. Within this division we are starting to see slow recovery in the mining and other industries across the border with subdued spending from customers within South Africa.

The new Fabrication Technology division order intake for 2017 is R112.4 million, with R106.1 million of this converted into revenue in the period. This business has not increased market share as expected in the period but the view is that the business will grow in the coming year.

REVENUE

Revenue of R1 743.0 million for 2017 is ahead of the equivalent period in 2016 of R1 604.5 million. The Environmental Control and Fabrication Technology divisions recorded revenue growth of 74.1% and 21.8% respectively. This revenue growth has been driven by the completion of large projects in the Environmental Control division and market share growth for the Fabrication Technology division. The Fans and Heat Exchangers division saw a decline in revenue of 1%; this division has seen the bulk of the impact of the political and economic uncertainty in South Africa impacting the spending and pricing decisions of customers.

OPERATING PROFIT

Operating profit of R316.2 million is a 27.7% improvement from R247.6 million reported in 2016.

The Environmental Control division moved to an operating profit of R51.9 million from an operating loss of R12.7 million in the previous period, improved project execution has resulted in an operating profit margin of 16.7% in the period.

The Fans and Heat Exchangers division's operating profit decreased by 2.9% to R275.7 million (2016: R283.9 million). Pricing pressure from customers has resulted in a decline in the operating profit margins in this division from 21.2% to 20.8%.

Operating profit margin for the Fabrication Technology division has improved as the division moves towards volume expectations.

Central operations had a decrease in costs to R15.8 million as the management team transitions to a local management team.

EARNINGS PER SHARE

Earnings per share has increased by 28.3% to 426.38 cents from 332.31 cents in 2016, this is attributable to improved operating profit margin of 18.1%, a 27.7% rand increase from 2016, and an increase of 39.5% in finance income on excess cash.

CASH AND CAPITAL MANAGEMENT

Howden's continuing focus on sustainable working capital management and operating profit performance has resulted in a satisfactory cash flow performance in 2017. Cash generated from operations for the year was R330.0 million and cash and cash equivalents are R1 176.4 million (2016: R909.3 million).

Net asset value per share has increased by 22.2% to 2 332.55 cents (2016: 1 909.22 cents) mainly due to the increase in cash and cash equivalents to R1 176.4 million (2016: R909.3 million).

OUTLOOK

While the local operating environment may remain challenging, we will continue to support the after-market needs of customers, while recognising that their capital expenditure plans could remain subdued in a low-growth economic environment.

EVENTS AFTER REPORTING DATE

None were identified.

DIVIDENDS

The directors have resolved not to declare a dividend.

DIRECTORATE

S Badat re-joined the board on 1 December 2017 replacing M Patel who resigned on 19 October 2017.

DIRECTORS' RESPONSIBILITY

The directors take full responsibility for the preparation of this report. The financial information has been correctly extracted from the audited information, but is not itself audited.

AUDIT REPORT

This summarised report is extracted from the underlying audited information, but is not in itself audited. The audited annual financial statements for the year ended 31 December 2017 from which the summarised report has been extracted were audited by Ernst & Young Inc., who expressed an unmodified opinion thereon.

A copy of the auditor's report on the audited annual financial statements is available for inspection at the Company's registered office, 1A Booysens Road, Booysens, 2091, during normal business hours together with the annual financial statements identified in the auditor's report.

A full copy of these financial statements is available on the Howden Africa Holdings website www.howden.co.za

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the annual general meeting (AGM) of shareholders of the Company will be held at HAHL's registered office, on Wednesday, 30 May 2018 at 1A Booysens Road, Booysens, Johannesburg, South Africa at 13:30 to consider and, if deemed fit, to pass with or without modification all of the ordinary and special resolutions as set out in the notice of AGM contained in the integrated report.

The record date for the purposes of determining the shareholders of the Company entitled to receive the AGM notice is Friday, 23 March 2018.

The record date for purposes of determining which shareholders of the Company are entitled to attend, participate in, and to vote at the AGM is Friday, 25 May 2018.

Accordingly, the last date to trade in the Company's shares on JSE Limited in order to be eligible to attend, participate in and vote at the AGM is Tuesday, 22 May 2018.

It is requested that the completed form of proxy must be deposited at the office of the Company's transfer secretaries, Link Market Services South Africa (Pty) Ltd by no later than 13h30 on 29 May 2018. Should your forms of proxy not be returned to the transfer secretary by the aforesaid date and time, the proxy may be handed to the chairman of the Annual General Meeting at any time before the commencement of the Annual General Meeting.

PREPARATION OF CONDENSED ANNUAL FINANCIAL STATEMENTS

The Group financial results were prepared under the supervision of the Chief Financial Officer, Mrs M Vigouroux CA(SA).

For and on behalf of the board of directors

IH Brander
Chairman

W Thomson
Chief Executive Officer

28 March 2018

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2017

R'000	2017	2016
ASSETS		
Non-current assets	178 403	185 931
Property, plant and equipment and intangible assets	133 105	136 708
Pension fund plan surplus	17 071	17 485
Deferred tax assets	21 069	18 132
Trade, construction contracts and other receivables	7 158	13 606
Current assets	1 952 121	1 675 109
Inventories	337 065	332 166
Trade, construction contracts and other receivables	389 751	386 010
Loans receivable	25 625	16 050
Current income tax asset	23 259	31 542
Cash and cash equivalents	1 176 421	909 341
TOTAL ASSETS	2 130 524	1 861 040
EQUITY		
Share capital and reserves	1 533 160	1 254 912
Share capital and reserves	1 533 160	1 254 912
TOTAL EQUITY	1 533 160	1 254 912
LIABILITIES		
Non-current liabilities	78 463	102 066
Deferred tax liabilities	5 738	3 069
Payables and construction contracts	59 769	87 355
Provisions	12 956	11 642
Current liabilities	518 901	504 062
Payables and construction contracts	507 346	472 639
Current income tax liabilities	562	13 123
Provisions	10 993	18 300
TOTAL LIABILITIES	597 364	606 128
TOTAL EQUITY AND LIABILITIES	2 130 524	1 861 040

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2017

R'000	Notes	2017	2016	Change %
Revenue		1 742 950	1 604 535	8.6
Cost of sales		(1 239 623)	(1 176 761)	5.3
Gross profit		503 327	427 774	17.7
Distribution costs		(60 459)	(58 546)	3.3
Administrative expenses		(127 177)	(123 827)	2.7
Other income		468	2 210	(78.8)
Operating profit	5	316 159	247 611	27.7
Investment income		77 494	55 566	39.5
Finance costs		(145)	(72)	101.4
Profit before income tax		393 508	303 105	29.8
Income tax expense		(113 252)	(84 684)	33.7
Profit for the year		280 256	218 421	28.3
Other comprehensive income for the year				
Other comprehensive income to be reclassified to profit or loss in subsequent periods:				
Cash flow hedge loss		(2 008)	(1 418)	
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:				
Pension fund plan loss		—	(1 298)	
Other comprehensive loss for the year, net of tax		(2 008)	(2 716)	
Total comprehensive income for the year		278 248	215 705	29.0
Earnings per share — basic and diluted (cents)		426.38	332.31	28.3

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

R'000	2017	2016
Share capital and reserves at the beginning of the year	1 254 912	1 039 207
Total comprehensive income for the year	278 248	215 705
Profit for the year	280 256	218 421
Other comprehensive loss	(2 008)	(2 716)
Share capital and reserves at the end of the year	1 533 160	1 254 912

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2017

R'000	2017	2016
Cash flow from operating activities		
Cash generated from operations	330 019	216 297
Interest paid	(145)	(72)
Income tax paid	(117 017)	(71 975)
Net cash generated from operating activities	212 857	144 250
Cash flow from investing activities		
Interest received	76 241	53 990
Purchases of property, plant and equipment and intangible assets	(12 443)	(10 650)
Loans issued	(9 575)	(8 550)
Proceeds from disposal of property, plant and equipment	—	111
Net cash generated from investing activities	54 223	34 901
Net increase in cash and cash equivalents	267 080	179 151
Cash and cash equivalents at the beginning of the year	909 341	730 190
Cash and cash equivalents at the end of the year	1 176 421	909 341

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

1. BASIS OF PREPARATION

The condensed consolidated annual financial statements for the year ended 31 December 2017 are prepared in accordance with the requirements of the JSE Limited Listings Requirements for condensed reports and the requirements of the Companies Act of South Africa. The Listings Requirements require condensed reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting. The report has been so prepared.

2. ACCOUNTING POLICIES

The accounting policies applied in the preparation of the condensed consolidated financial statements are in terms of IFRS and are consistent with those applied in the previous consolidated annual financial statements.

There were no new revised standards adopted that have a material impact on the consolidated financial statements.

The accounting standards and amendments issued to accounting standards and interpretations which are relevant to the Group, but not yet effective at 31 December 2017, have not been adopted. It is expected that, where applicable, these standards and amendments will be adopted on each respective effective date, except where specifically identified. The Group continuously evaluates the impact of these standards and amendments.

IFRS 15 update: the standard will be adopted on the effective date of 1 January 2018. An assessment of the impact has been completed and services in multiple-arrangement contracts were identified requiring a cumulative adjustment of R4.3 million after tax to equity. The Group has elected to apply the full retrospective method in transition to IFRS15, with some expedients.

IFRS9 update: the standard will be adopted on the effective date of 1 January 2018. An assessment was performed and no material impact was identified.

3. SEGMENTAL ANALYSIS BY OPERATING DIVISION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Committee.

R'000	2017	2016	Change %
Orders received			
Fans and Heat Exchangers	1 415 200	1 238 338	14.3
Environmental Control	192 100	239 949	(19.9)
Fabrication Technology	112 400	94 430	19.0
	1 719 700	1 572 717	9.3

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

3. SEGMENTAL ANALYSIS BY OPERATING DIVISION CONTINUED

R'000	2017	2016	Change %
External revenue			
Fans and Heat Exchangers	1 325 917	1 338 783	(1.0)
Environmental Control	310 890	178 610	74.1
Fabrication Technology	106 143	87 142	21.8
	1 742 950	1 604 535	8.6
Intersegmental sales			
Fans and Heat Exchangers	35 482	26 115	35.9
Environmental Control	28 456	29 690	(4.2)
Fabrication Technology	1 567	2 783	(43.7)
	65 505	58 588	11.8
Operating profit			
Fans and Heat Exchangers	275 654	283 942	(2.9)
Environmental Control	51 930	(12 744)	507.5
Fabrication Technology	4 349	1 257	246.0
	331 933	272 455	21.8
Central operations	(15 774)	(24 844)	(36.5)
Total operating profit	316 159	247 611	27.7
Investment income	77 494	55 566	39.5
Finance costs	(145)	(72)	101.4
Profit before income tax	393 508	303 105	29.8
Assets			
Fans and Heat Exchangers	751 933	848 304	(11.4)
Environmental Control	241 340	166 437	45.0
Fabrication Technology	99 272	113 892	(12.8)
Central operations	1 038 111	732 407	41.7
	2 130 656	1 861 040	14.5

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

3. SEGMENTAL ANALYSIS BY OPERATING DIVISION CONTINUED

R'000	2017	2016	Change %
Liabilities			
Fans and Heat Exchangers	439 404	462 761	(5.0)
Environmental Control	86 224	54 908	57.0
Fabrication Technology	46 445	63 301	(26.6)
Central operations	25 423	25 158	1.2
	597 496	606 128	(1.4)

4. FINANCIAL INSTRUMENTS

The Group has not disclosed the fair values of financial instruments measured at amortised cost as their carrying amounts closely approximate their fair values. Financial instruments measured at fair value comprise forward exchange contracts and are determined using forward exchange rates as at 31 December 2017 (level 2 instruments). These are included as other receivables and payables on the condensed consolidated statement of financial position.

5. OPERATING PROFIT INCLUDES

R'000	2017	2016	Change %
Depreciation and amortisation	15 915	16 086	(1.1)

6. HEADLINE EARNINGS PER SHARE

R'000	2017	2016	Change %
Headline earnings per share (cents)	426.58	332.36	28.3
Number of shares in issue (000)	65 729	65 729	0.0
Reconciliation of headline earnings			
Profit for the year	280 256	218 421	28.3
Write off of property, plant and equipment	131	35	274.3
Headline earnings attributable to equity holders	280 387	218 456	28.3

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

7. CAPITAL COMMITMENTS

R'000	2017	2016
Authorised and contracted	38	774

8. RELATED PARTY TRANSACTIONS

RELATED PARTY TRANSACTIONS WITH ENTITIES OUTSIDE THE HOWDEN AFRICA GROUP

R'000	Sales to related parties	Purchases from related parties	Management fee to related party	ERP licence fee to related party	Technology licence fee to related party	Service fee — shared service centre
2017						
Howden Denmark A/S	46	8 075	—	—	—	—
Howden Thomassen Compressors BV Netherlands	—	922	—	—	—	—
Howden Australia Proprietary Limited	101 898	1 095	—	—	—	—
Howden Group Limited UK	83	156	16 619	7 534	—	—
Howden Holdings Limited UK	—	—	—	—	2 599	—
James Howden and Co.	—	848	—	—	—	—
Howden Process Compressors Limited	—	6 934	—	—	—	—
Howden Alphair Simsmart	—	25	—	—	—	—
Howden Roots LLC	—	451	—	—	—	—
Howden Turbo Finland	—	554	—	—	—	—
ESAB KFT	—	—	—	—	—	4 126
Howden North America	818	926	—	—	—	—
Howden Compressors Limited	—	2 898	—	—	—	—
ESAB Middle East	7	65 236	—	—	—	—
Howden Hua Engineering	—	141	—	—	—	—
Howden BC Compressors	—	53	—	—	—	—
	102 852	88 314	16 619	7 534	2 599	4 126

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

8. RELATED PARTY TRANSACTIONS CONTINUED

RELATED PARTY TRANSACTIONS WITH ENTITIES OUTSIDE THE HOWDEN AFRICA GROUP

R'000	Sales to related parties	Purchases from related parties	Management fee to related party	ERP licence fee to related party	Technology licence fee to related party	Service fee — shared service centre
2016						
Howden Denmark A/S	—	7 758	—	—	—	—
Howden Thomassen Compressors BV Netherlands	—	398	—	—	—	—
Howden Australia Proprietary Limited	50 484	404	—	—	—	—
Howden Group Limited UK	—	7	15 361	7 758	—	—
Howden Holdings Limited UK	73	786	—	—	2 560	—
Howden Process Compressors Limited	71	3 157	—	—	—	—
Howden South America	439	—	—	—	—	—
FW US Fairfield	133	—	—	—	—	—
FW Finland	—	152	—	—	—	—
Howden Mexico	—	20 590	—	—	—	—
ESAB KFT	—	—	—	—	—	3 380
Howden North America	2 883	—	—	—	—	—
Howden Compressors Limited	—	1 152	—	—	—	—
ESAB Middle East	273	121 727	—	—	—	—
Howden Hua Engineering	—	243	—	—	—	—
Howden BC Compressors	—	75	—	—	—	—
	54 356	156 449	15 361	7 758	2 560	3 380

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

8. RELATED PARTY TRANSACTIONS CONTINUED

RELATED PARTY BALANCES AS AT 31 DECEMBER 2017

R'000	2017		2016	
	Amounts due by related parties	Amounts owed to related parties	Amounts due by related parties	Amounts owed to related parties
Howden Denmark A/S	—	7 935	—	2 518
FW Finland	—	—	—	128
Howden Thomassen BV Netherlands	—	308	—	172
Howden Australia Proprietary Limited	38 676	969	45 994	756
Howden Group Limited UK	45	632	—	306
Howden Holdings Limited UK	—	3 251	55	3 220
Howden North America	—	856	2 453	—
Howden HUA Engineering	—	—	—	37
Howden Compressors Limited	71	2 344	69	1 187
ESAB Middle East	666	45 819	1 421	63 064
ESAB KFT	—	353	—	388
Howden South America	—	—	378	—
James Howden & Co	—	880	—	487
Howden India	—	8	—	8
	39 458	63 355	50 370	72 271

9. EVENTS AFTER REPORTING DATE

There were no events identified after reporting date that require disclosure or an adjustment to the financial results.

10. OTHER SALIENT FEATURES

R'000	2017	2016	Change %
Net asset value (cents)	2 332.55	1 909.22	22.2
Capital expenditure	12 443	10 650	16.8
Operating profit to revenue (%)	18.1	15.4	2.7

CORPORATE INFORMATION

HOWDEN AFRICA HOLDINGS LIMITED (HAHL)

(Incorporated in the Republic of South Africa)
(Registration number 1996/002982/06)
JSE code: HWN ISIN: ZAE000010583
("Howden", "the Company" or "the Group")

REGISTERED OFFICE

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DIRECTORS

IH Brander (Chairman) #*
W Thomson (Chief Executive Officer) #
J Brown #*
M Malebye *
M Vigouroux (Chief Financial Officer)
H Mathe *
S Badat *
(# British; * Non-executive)

COMPANY SECRETARY

CR Masson

TRANSFER SECRETARIES

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PUBLICATION DATE

28 March 2018



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