2 JUNE 2015 AGM QUESTIONS AND ANSWERS PLUS OTHER ADDITIONAL INFORMATION

Related party agreement questions

Q: What are the benefits of the related party agreements (Management Services and ERP Licence Agreements)?

A: Howden Africa is able to draw on the resources of the larger Howden team in ensuring that customer demands are met and can leverage worldwide expertise to achieve our operational goals. As the Howden Africa business has grown and prospered over the past decade the level of management, IT, and operational support, as well as technological and software licenses, received from the Howden business has increased substantially. In order to ensure continued access to these resources Howden Africa views it prudent to continue obtaining such support, services and license contracts which including a technology license agreement, an enterprise software development license agreement and a management services agreement. The agreements secure necessary resources and support and are charged on the same basis as the fees for such services incurred by other Howden businesses around the world. Howden Africa would be unable to operate efficiently in the absence of such services.

Q: What types of services are provided under the management services agreement?

A: These services include finance, treasury, tax, HR, health and safety, risk management, programme office, legal, business development, supply chain, marketing, IT and technical support which supplement local resource and expertise. Examples are Employee Talent Management support and tools, The Colfax Business System (CBS), work day global HR system, globally hosted email, telephone communications (Lync), intranet, website etc.

Q: What are the benefits of the Software license agreement?

A: Howden Africa has been operating a very old ERP system which is largely unsupported and inadequate. The system fails to the meet the requirements of the business today following the substantial growth over the last three years and it has been identified as a risk to the businesses sustainability and growth.

The new implementation brings significant benefits to Howden Africa and its governance structures by providing a modern supporting system with robust processes which will improve the management and integrity of financial and operational activities. The benefits include:

- The introduction of a systemised procurement system and processes
- Enhanced King III and SOX compliance
- More efficient month end reporting and forecasting

HGL purchased the software and managed and bore the costs of implementation of the software to allow each Howden business (around the world) to benefit from economies of scale and a single point of excellence for implementation rather than trying to deal with the challenges of implementing locally. It was considered that Howden Group would be more effective than Howden businesses trying to purchase and implement systems locally as it would allow for:

- Cheaper costs as HGL would have better bargaining power to purchase a group wide solution
- Expertise – the central team has built up significant expertise over the implementation already

conducted allowing them to use this experience to ensure more efficient and less risky implementations

- Resource – HGL are able to bring a team into each business for implementation allowing resource within the business to largely focus on the business instead of a complex implementation; and
- Consistency – By using one system implemented by the central team, a consistent approach has been taken across the business allowing for more standard processes to be developed.

Q: Can you answer the following queries on the HGL related party chages:

a) Why did the HGL Management charge increase from zero in the six months to 30 June 2013 to R17.1 million in the six months to 30 June 2014?

b) You reported a management charge in the interim accounts commentary off R17.1m given the full 2014 charge was only R17.9m can you explain why the first half charge was so large?

c) Why did the total HGL charges decrease significantly in the second half of 2014?

a) The management services fee for 2013 was only fully approved by the board in the second half of 2013. As a result no accrual for these charges was made in the first half of 2013.

b) Fee from HGL are only charged on an annual basis at the end of the financial year. An accrual was therefore made for all HGL fees including support services provided, ERP and Technology licence fees. The accrual was based on 50% of the 2013 total HGL charges. (2013 Charge R32m x inflation 7% x 50% = R17.1m).

c) The total costs for the year ended up significantly lower than expected due to;
   - A reduction in management fees charged from Howden Global.
   - A delay in the ERP implementation at one of our subsidiaries Howden Power.
   - A reduction in the technology fee due to a decline in New Build supply.

	Management Services (R'000)	ERP Software (R'000)	Technology (R'000)	Totals (R'000)
2012	0	0	3,888	3,888
2013	20,059	8,118	4,138	32,315
2014	17,969	4,525	2,720	25,214

For avoidance of any doubt it is noted that the figures reflected on page 127 of the 2014 integrated report related to balance sheet figures (fees charged over 2013 and 2014 and which were not yet paid as at 31 Dec 2014). The fees charged each year are reflected on page 125 of the 2014 integrated report.

Q: In relation to the management services agreement what has the board done to ensure that the fees charged under these agreement are at arms length?

A: The fees charged in relation to the management services agreement is at arms length and calculated in the same way as with other Howden businesses around the world. Shareholders should take comfort from the fact that payments made under these agreements can only be made in accordance with reserve bank approval and upon production of an annual audit certificate.

Q: In a SENS statement made yesterday the Company stated that "… we plan to adopt a formal 10% market cap on these contracts." Can you explain what this means?

A: The board has agreed a 10% cap (based on the market cap at the time the sens notice was released) in relation to the entire agreggated fees paid over the terms of the below named agreements.

- ERP Software Licence Agreement – Implementation costs for Phase 1 and Phase 2 implementation and support charges until 2022.
- Management Services Agreement – The management service fees until the end of 2017.

Other questions

Q: In yesterday's SENS release Howden refers to challenging macro economic and market place environments as well as prevailing challenging operating conditions in the mining and power generation market. Can the Chairman please provide us with an update as to how Howden's turnover and operating margins are holding up in the face of these challenging conditions?

A: Order and sales intake have been lower and management are implementing actions to mitigate this.

Q: On page 21 of the 2014 integrated report the Chairman states that "in light of the potential BEE ownership transaction the board has resolved not to declare a dividend. In yesterday's SENS release Howden lists a number of additional factors behind its decisions to cease dividends including share buybacks, acquisitions, other such investments and changes, strategic flexability, prevailing challenging conditions and so on. Can the Chairman please advise why Howden in such a short space of time has tabulated so many additional factors in support of its decision to cease dividends?

A: Please refer to the SENS announcement released on the 1st June 2015. The purpose of this SENS announcement was to provide shareholders with further information in regard to the factors the board is considering.

Q: Why does the Board want to conclude a BEE transaction and when does the board expect this to be finalised?

A: The business' current ownership structure no longer meets the requirements of our key customer base and as a result we have embarked on the process of ownership transformation. This has been a complex process and has taken much longer than the board expected for reasons we are currently unable to declare to the market. The board continues to work hard on the process.

Q: Why did the board refuse to table the two proposed shareholder resolutions at the annual general meeting?

A: The board took external legal counsel on this matter and the view was that these proposed resolutions relate to matters solely within the authority vested in the Board by the Companies Act and the Company's memorandum of incorporation.