Interwaste Holdings Limited

**Reviewed condensed preliminary financial results for the year ended 31 December 2010**

**Interwaste Holdings Limited**
(Incorporated in the Republic of South Africa)
(Registration number: 2006/037223/06)
(JSE code: IWE & ISN: ZAE000097903)
("the company" or "the Group")

## Condensed Consolidated Statement of Comprehensive Income for the year ended 31 December 2010

| | Reviewed Dec 2010 R'000 | % Change | Restated Dec 2009 R'000 | Audited Dec 2009 R'000 |
|---|---|---|---|---|
| **Revenue** | **442 674** | **8.7** | **407 259** | **407 259** |
| Cost of sales | (290 032) | | (226 406) | (215 658) |
| **Gross profit** | **152 642** | **(15.6)** | **180 853** | **191 601** |
| Other income | 2 082 | | 2 483 | 2 483 |
| Operating expenses | (123 401) | | (122 390) | (122 390) |
| **Earnings before interest, tax, depreciation & amortisation** | **31 323** | | **60 946** | **71 694** |
| Depreciation & amortisation | (38 816) | 11.3 | (34 872) | (25 967) |
| **(Loss) / profit before interest & taxation** | **(7 493)** | | **26 074** | **45 727** |
| Investment income | 5 298 | | 3 388 | 3 388 |
| Share of profit in equity accounted joint venture | 55 | | 1 113 | 1 113 |
| Net interest paid | (13 235) | (26) | (17 881) | (13 860) |
| **(Loss) / profit before taxation** | **(15 375)** | | **12 694** | **36 368** |
| Taxation credit / (expense) | 3 419 | | (2 651) | (10 653) |
| **Total comprehensive (loss) / income for the year** | **(11 956)** | | **10 043** | **25 715** |
| Comprehensive (loss) / income for the year attributable to: | | | | |
| - ordinary shareholders | (12 067) | | 9 299 | 24 971 |
| - non controlling interests | 111 | | 744 | 744 |
| | **(11 956)** | | **10 043** | **25 715** |
| **Reconciliation of headline (loss) / earnings** | | | | |
| Comprehensive (loss) / income attributable to ordinary shareholders | (12 067) | | 9 299 | 24 971 |
| Profit on disposal of subsidiary | (4 254) | | | |
| Impairment of goodwill | 1 432 | | | |
| Impairment of investment in joint venture | 1 416 | | | |
| Loss / (profit) on disposal of property, plant & equipment | 2 398 | | (1 817) | (1 817) |
| **Headline (loss) / earnings attributable to ordinary shareholders** | **(11 075)** | | **7 482** | **23 154** |
| Weighted average number of shares in issue on which earnings per share are based | 329 311 210 | | 307 205 722 | 307 205 722 |
| Basic (loss) / earnings per share (cents) | (3.66) | | 3.03 | 8.13 |
| Loss / (profit) on disposal of property, plant & equipment (after tax) (cents) | 0.73 | | (0.59) | (0.59) |
| Impairment of goodwill | 0.43 | | - | - |
| Impairment of investment in joint venture | 0.43 | | - | - |
| Profit on disposal of subsidiary (after tax) (cents) | (1.29) | | - | - |
| **Headline (loss) / earnings per share (cents)** | **(3.36)** | | **2.44** | **7.54** |

## Condensed Consolidated Statement of Changes in Equity for the year ended 31 December 2010

| | Reviewed Dec 2010 R'000 | Restated Dec 2009 R'000 | Audited Dec 2009 R'000 |
|---|---|---|---|
| **Total comprehensive (loss) / income for the year** | **(11 956)** | **10 043** | **25 715** |
| Disposal of subsidiary (non-controlling interest) | (1 575) | (689) | (689) |
| Dividends paid to non-controlling interest | (244) | (465) | (465) |
| Share based payment expense | 143 | - | - |
| Equity at beginning of year | 250 413 | 241 524 | 241 524 |
| **Equity at end of year** | **236 781** | **250 413** | **266 085** |
| Made up as follows : | | | |
| Share capital issued | 25 | 25 | 25 |
| Share premium | 175 466 | 175 466 | 175 466 |
| Share based payment reserve | 1 715 | 1 572 | 1 572 |
| Retained earnings | 57 801 | 69 129 | 84 801 |
| Non controlling interests | 1 774 | 4 221 | 4 221 |
| **Total equity** | **236 781** | **250 413** | **266 085** |

## Condensed Consolidated Statement of Financial Position as at 31 December 2010

| | Reviewed Dec 2010 R'000 | Restated Dec 2009 R'000 | Audited Dec 2009 R'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | **296 552** | **316 975** | **325 879** |
| Property, plant and equipment | 248 540 | 263 544 | 272 448 |
| Goodwill | 179 | 185 | 185 |
| Intangible assets | 47 001 | 49 590 | 49 590 |
| Investment in joint venture | 110 | 1 471 | 1 471 |
| Deferred taxation asset | 722 | 2 185 | 2 185 |
| **Current assets** | **119 902** | **137 347** | **141 564** |
| Inventories | 15 717 | 33 607 | 37 425 |
| Loans to related companies | 7 347 | 1 441 | 1 441 |
| Tax receivable | 6 947 | 10 256 | 10 655 |
| Trade and other receivables | 80 581 | 86 212 | 86 212 |
| Cash and cash equivalents | 9 310 | 5 831 | 5 831 |
| **Total assets** | **416 454** | **454 322** | **467 443** |
| **Equity and liabilities** | | | |
| **Equity** | **236 781** | **250 413** | **266 085** |
| Share capital | 175 491 | 175 491 | 175 491 |
| Share based payment reserve | 1 715 | 1 572 | 1 572 |
| Retained earnings | 57 801 | 69 129 | 84 801 |
| Non controlling interests | 1 774 | 4 221 | 4 221 |
| **Non-current liabilities** | **66 710** | **80 852** | **85 231** |
| Interest bearing borrowings | 47 739 | 54 285 | 54 285 |
| Deferred taxation liability | 18 971 | 26 567 | 30 946 |
| **Current liabilities** | **112 963** | **123 057** | **116 127** |
| Trade and other payables | 37 949 | 46 624 | 39 694 |
| Interest bearing borrowings | 51 547 | 50 172 | 50 172 |
| Taxation payable | - | 881 | 881 |
| Bank overdrafts | 23 467 | 25 380 | 25 380 |
| **Total liabilities** | **179 673** | **203 909** | **201 358** |
| **Total equity and liabilities** | **416 454** | **454 322** | **467 443** |
| Number of shares in issue at year end | 329 311 208 | 329 311 208 | 329 311 208 |
| Net asset value per share (cents) | 71.4 | 74.8 | 79.5 |
| Net tangible asset value per share (cents) | 57.1 | 59.7 | 64.5 |

## Condensed Consolidated Statement of Cash Flow for the year ended 31 December 2010

| | Reviewed Dec 2010 R'000 | Restated Dec 2009 R'000 | Audited Dec 2009 R'000 |
|---|---|---|---|
| Cash flows from operating activities | 38 424 | 41 214 | 41 214 |
| Cash flows utilised by investing activities | (34 948) | (54 383) | (54 383) |
| Cash flows generated from / (utilised by) financing activities | 1 916 | (19 296) | (19 296) |
| Net increase / (decrease) in cash and cash equivalents | 5 392 | (32 465) | (32 465) |
| Cash and cash equivalents at beginning of year | (19 549) | 12 916 | 12 916 |
| **Cash and cash equivalents at end of year** | **(14 157)** | **(19 549)** | **(19 549)** |

## Condensed Consolidated Segment Report for the year ended 31 December 2010

| | Reviewed Dec 2010 R'000 | Restated Dec 2009 R'000 | Audited Dec 2009 R'000 |
|---|---|---|---|
| **Gross revenue** | **442 674** | **407 259** | **407 259** |
| Waste management | 270 566 | 216 200 | 216 200 |
| Metals recovery | 37 469 | 39 548 | 39 548 |
| Organics | 56 755 | 57 146 | 57 146 |
| Landfill management, construction & rehabilitation | 77 884 | 94 365 | 94 365 |
| **Profit / (loss) before interest and taxation** | **(7 493)** | **26 074** | **45 727** |
| Waste management | 14 307 | 32 668 | 41 402 |
| Metals recovery | (13 126) | (6 551) | (1 173) |
| Organics | (5 588) | (3 641) | (1 542) |
| Landfill management,construction & rehabilitation | (3 086) | 3 598 | 7 040 |
| **Depreciation** | **38 816** | **34 872** | **25 967** |
| Waste management | 23 378 | 22 179 | 16 737 |
| Metals recovery | 1 786 | 1 804 | 1 050 |
| Organics | 1 826 | 3 193 | 2 051 |
| Landfill management, construction & rehabilitation | 11 826 | 7 696 | 6 129 |

Geographical segments are not reported as the company operates mainly in South Africa and its international operations do not meet the IFRS 8 thresholds for reportable segments.

## Prior year adjustment

In the preparation of the financial statements it was noted that the results for the prior year were overstated. The overstatement was corrected by way of a prior year adjustment which had the following impact:

| | Adjustment | Tax effect | After Tax |
|---|---|---|---|
| Unrecorded liabilities | (6 930) | 1 940 | (4 990) |
| Inventory valuation | (3 818) | 1 069 | (2 749) |
| Depreciation | (8 904) | 2 493 | (6 411) |
| Tax, interest & penalties | (4 022) | 2 500 | (1 522) |
| **Total** | **(23 674)** | **8 002** | **(15 672)** |

| | 31 December 2009 As previously reported | Prior year adjustment | 31 December 2009 Restated |
|---|---|---|---|
| Property, plant & equipment | 272 448 | (8 904) | 263 544 |
| Inventories | 37 425 | (3 818) | 33 607 |
| Trade and other payables | 39 694 | 6 930 | 46 624 |
| Tax receivable | 10 655 | (399) | 10 256 |
| Deferred taxation liability | 30 946 | (4 379) | 26 567 |
| Profit before taxation | 36 368 | (23 674) | 12 694 |
| Taxation | (10 653) | 8 002 | (2 651) |
| Comprehensive income for the period attributable to: | | | |
| - ordinary shareholders | 24 971 | (15 672) | 9 299 |
| - non controlling shareholders | 744 | - | 744 |

The comparative results for the year ended 31 December 2008 have not been presented as required by IAS1, as the prior year adjustment had no effect on the results previously reported.

## OVERVIEW

The last year has been difficult for the Group. While the waste management business performed acceptably, the landfill business was affected by a number of asset impairments, the organic business was negatively affected by the strong Rand and the metals recovery business ("MRC") felt the impact of lower metal prices.

In addition, in the preparation of the results for the year the following was determined:

- the results for the prior year were overstated by R15.7m (after tax). This comprised an overstatement of property, plant and equipment of R6.4m, an overstatement of inventory of R2.7m, and an under accrual of liabilities, including taxation, of R6.6m.
- a number of significant asset impairments were required in the current year. These comprised:
- an impairment of R4.7m to inventory held by MRC;
- R11.5m of accelerated depreciation on property, plant and equipment;
- an impairment of R3.2m in respect of redundant property, plant and equipment;
- an impairment of R5.8m to receivables;
- an impairment of R1.4m to goodwill, and
- a R1.4m impairment to the investment in a joint venture.

The current and prior year adjustments resulted from a combination of accounting errors, deficiencies in the system of internal financial controls and losses in the value of certain of the assets held by the Group.

The following details are relevant:

- MRC's stockholding was reduced to nil by the end of the financial year. The controls relating to inventory purchases and sales have been tightened substantially and strict limits have been imposed on maximum inventory levels;
- a detailed review of the fixed asset register was performed and non performing assets were identified and impaired. The controls to ensure that non-performing assets are timeously identified and impaired have been strengthened;
- all receivables assessed as non recoverable, or as likely to be non recoverable, or a portion of which is likely to be non recoverable, were impaired, or the relevant portion was impaired. The Group transacts with a number of municipalities and government departments and certain of the amounts due from these entities have been outstanding for a considerable period. While our experience has been that a large proportion of the outstanding amounts will be recovered over time, given the constrained economic climate and the financial difficulties being experienced by a number of these entities, a conservative approach was adopted to assessing the recoverability of longer outstanding amounts.

There have been significant changes and upgrades to the finance team and the internal financial control deficiencies have been addressed. Where appropriate, changes to general management have been made and divisional operating policies have been adjusted.

## DIVISIONAL RESULTS

The waste management division performed well at an operational level. It produced a profit before interest, tax and impairments of R27.9m and after tax, interest and impairments of R4.4m. The new fleet rendered good returns, in line with expectations, with improved operational efficiencies and reduced maintenance costs. Disposal costs have increased significantly and the Group's strategy of reducing the actual disposal cost through recycling and more effective classification of waste streams will be an increasingly important contributor to profitability and client service.

The landfill division's revenue decreased by 5% due to the termination of low margin contracts, (excluding the reduction due to the sale of Envirofill Namibia). Profit before taxation decreased due to a number of asset impairments. The division transacts, inter alia, with a number of municipalities which regularly extend repayment terms and require considerable management. The division invested heavily in the FG Landfill site in Midrand and the investment should yield profits and cash flow over the next few years.

The organic manufacturing division had a difficult year with revenue decreasing by 1% over the prior year and losses before interest and tax increasing by 53%. Trading conditions for the division remain difficult with consumer lines moving slowly in the current economic climate and export sales being substantially reduced as a result of the strong Rand.
The installation of new process equipment during the year improved operational efficiencies and reduced operating costs.

The metals recycling division was problematic and produced a loss of R13.1m (before interest and tax). The business was de-stocked in the latter part of the financial year and there were significant impairments to the carrying value of inventory. The manner in which the division operates has been changed with strict controls over inventory purchases and sales and the imposition of limits on maximum inventory levels and tolerable exposures to changes in metal prices.

## FINANCIAL

Group revenue increased by 9% to R442m (2009: R407m).

Gross profit decreased by 16% to R152m (2009: R181m).

EBITDA decreased by 48% to R31m (2009: R61m).

The Group has moved a significant portion of its fleet onto full maintenance leases. A consequence of this is that the lease cost is included in cost of sales, which depresses gross margin percentages, but depreciation and finance costs reduce correspondingly.

The Group continued to invest in the business during the year. Operating activities generated cash of R38.4m and R35m of this was invested in operating assets. Encouragingly, the Group generated net cash of R5.4m after reducing liabilities.

In January 2010 the Group disposed of its Namibian subsidiary which had generated revenue of R12.8 million and headline earnings of R500 219 in the comparative period. On a like for like basis, Group revenue increased by 12% (R47.8m).

## PROSPECTS

Despite the note of caution in the interim announcement, the results for the year are a disappointment. Significant effort was applied to improving efficiencies and reducing costs in the operating businesses and while the efforts bore fruit, the results thereof were outweighed by the impairments recorded.

Management's focus for 2011:

- to continue to maintain and grow the Group's market share. We will pursue growth where the returns justify the investment and the revenue from the contracts can be collected within reasonable periods;
- cost and productivity improvements. Progress has been made in this area and further gains are targeted. The move to a new fleet has resulted in a sustained reduction in maintenance costs and an improvement in operational efficiencies;
- effective management of working capital. Growth in the business and the difficult economic environment have meant that working capital levels are often strained and active management of the Group's funding requirements is critical;
- management of asset growth. Historically all surplus cash has been invested in property, plant and equipment and working capital, to facilitate growth. These investments will continue to be made where appropriate, however there is considerable emphasis on more effective leveraging of the existing asset base.

While the economic environment remains difficult, the current year has begun positively for the Group.

## CHANGES TO THE BOARD OF DIRECTORS

Funani Mojono joined the board as an independent non-executive director in June 2010.

Ethan Dube resigned as chairman at the end of July 2010 and was replaced by Andisiwe Kawa who is the independent non-executive chairperson. The board extends its gratitude to Ethan for the contribution he made to the company.

The board also accepted the resignation of Ivan John during the period and welcomed André Broodryk as the Group's new financial director.

Bronwyn Willcocks announced her retirement as executive human resources director with effect from 30 September 2010 and changed her status to that of a non-executive member of the board. The board thanks her for an invaluable contribution over a long period.

## DIVIDEND

The Group will not pay a dividend for the year.

Platinum Waste Resources (Pty) Ltd, a partly owned subsidiary, paid dividends of R243 940 to non-controlling shareholders.

## ACCOUNTING POLICIES

### BASIS OF PREPARATION

These reviewed condensed consolidated financial statements are prepared in accordance with the framework concepts and the recognition and measurement criteria of International Financial Reporting Standards (IFRS), its interpretations adopted by the International Accounting Standards Board (IASB), the presentation and the disclosure requirements of IAS 34 Interim Financial Reporting, the AC 500 standards as issued by the Accounting Practices Board, the Listings Requirements of the JSE Limited and the requirements of the South African Companies Act 61 of 1973, as amended. The condensed consolidated financial results are prepared in accordance with the going concern principle under the historical cost basis as modified by the fair value accounting of certain assets and liabilities where required or permitted by IFRS.

The condensed consolidated financial statements are presented in South African Rand.

### CHANGES IN ACCOUNTING POLICIES

The accounting policies are in terms of IFRS and are consistent with those adopted in the previous year.

### STATEMENT ON GOING CONCERN

The financial statements have been prepared on the going concern basis as the directors believe that the Group has adequate resources to continue in operation for the foreseeable future.

### REPORT OF THE INDEPENDENT AUDITORS

The condensed group financial statements of Interwaste Holdings Limited for the year ended 31 December 2010 have been reviewed by the company's auditor, KPMG Inc. In their review report dated 29 March 2011, which is available for inspection at the Company's Registered Office, KPMG Inc state that their review was conducted in accordance with the International Standard on Review Engagements 2410, Review of Interim Information Performed by the Independent Auditor of the Entity, which applies to a review of condensed consolidated group financial information, and have expressed an unmodified conclusion on the condensed preliminary group financial statements.

### APPOINTMENT OF NEW AUDITORS

RSM Betty & Dickson (Johannesburg) resigned as the Group's auditors, with effect from 16 September 2010, and KPMG Inc. were appointed as the Group auditors for the 2010 financial year.

### APPRECIATION

The Board extends its gratitude to our employees, our customers and our investors for the effort and support during the year. We have been through tough times but we are tough people.

On behalf of the Board

29 March 2011

| | |
|---|---|
| **WAH Willcocks** | **A Broodryk** |
| **Chief Executive** | **Financial Director** |

### CORPORATE INFORMATION

**Independent non-executive directors:** A Kawa (Chairperson) (appointed 01.08.10), GR Tipper, PF Mojono (appointed 01.06.10), BL Willcocks

**Executive directors:** WAH Willcocks (MD); A Broodryk (FD) (appointed 01.06.10); LC Grobbelaar

**Registration number:** 2006/037223/06

**Registered address:** Corner of Avocet and Bromhof Roads, Bromhof, 2154

**Postal address:** PO Box 73503, Fairlands, 2030

**Company secretary:** Allen de Villiers

**Telephone:** (011) 792 9330 **Facsimile:** (011) 792 8998

**Transfer secretaries:** Computershare Investor Services (Pty) Limited

**Designated Adviser:** Vunani Corporate Finance

*In line with Interwaste Holdings stated environmental policy on natural resource utilisation, this publication is printed on Triple Green recyclable paper produced from sustainable sugar cane fibre.*