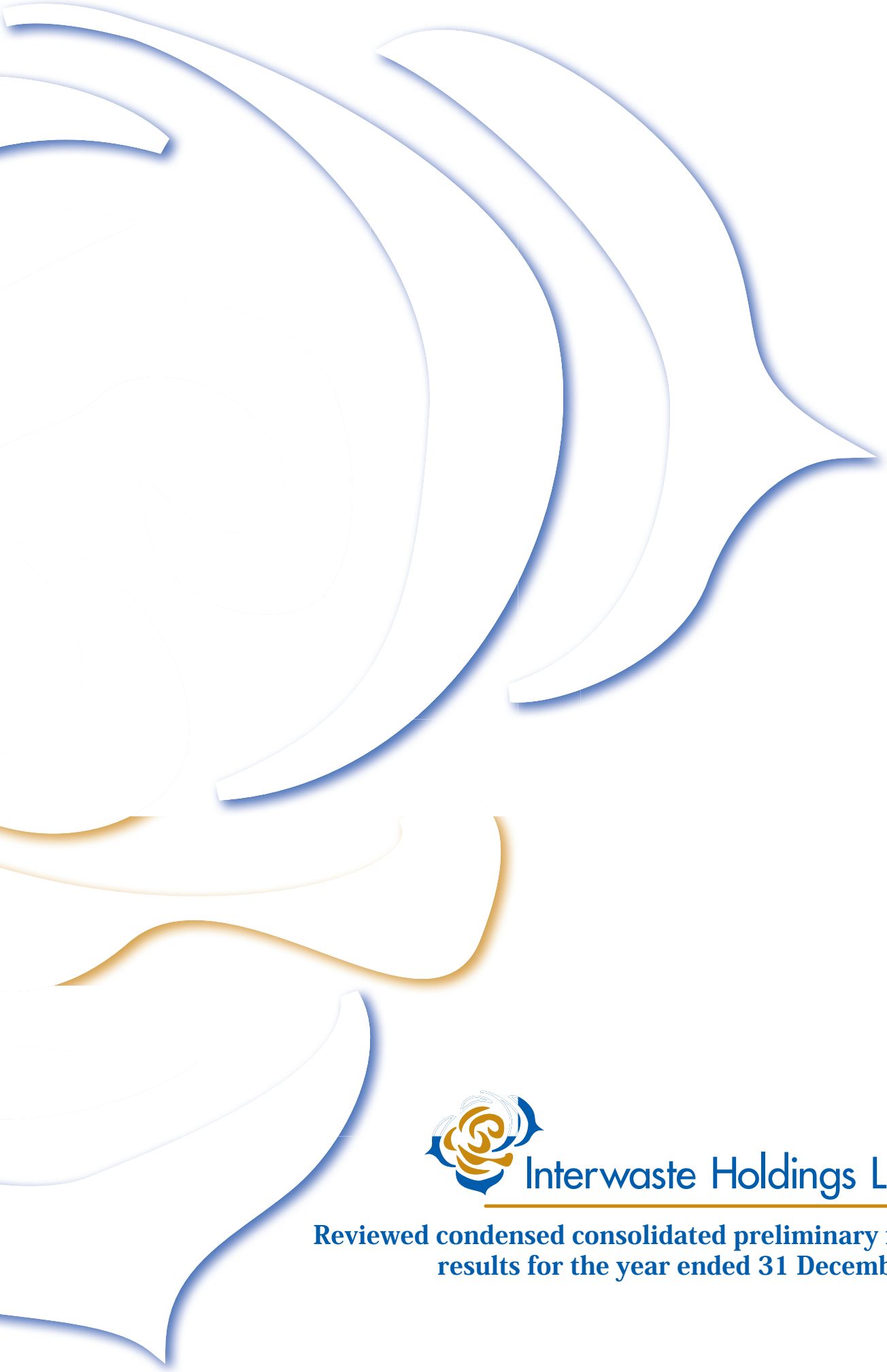

Interwaste Holdings Limited

Reviewed condensed consolidated preliminary financial results for the year ended 31 December 2013

Interwaste Holdings Limited

(Incorporated in the Republic of South Africa)
(Registration number: 2006/037223/06)
(JSE code: IWE ISIN: ZAE000097903)
("Interwaste" or "the Company" or "the Group")

Reviewed condensed consolidated preliminary financial results for the year ended 31 December 2013

Condensed Consolidated Statement of Comprehensive Income

for the year ended 31 December 2013

Figures in R'000	Dec 2013 Reviewed	% Change	Dec 2012 Audited
Revenue	688 242	23%	558 591
Cost of sales	(378 628)		(315 522)
Gross profit	**309 614**	27%	**243 069**
Other Income	679		-
Operating expenses	(218 163)		(168 305)
Earnings before interest, tax, depreciation and amortisation	**92 130**	23%	**74 764**
Depreciation and amortisation	(41 678)		(42 521)
Results from operating activities	**50 452**	57%	**32 243**
Share of loss in equity accounted joint venture	-		(168)
Net finance costs	(10 200)		(10 923)
Finance costs	(11 335)		(11 432)
Finance income	1 135		509
Profit before taxation	**40 252**	90%	**21 152**
Taxation expense	(11 737)		(5 642)
Profit for the year	**28 515**	84%	**15 510**
Profit attributable to:			
Non-controlling interests	1 175		721
Owners of the company	27 340	85%	14 789
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Foreign currency translation reserve movement on foreign operations	58		(12)
Total comprehensive income for the year	**28 573**	84%	**15 498**
Total comprehensive income attributed to:			
Non-controlling interests	1 175		721
Owners of the company	27 398		14 777
Reconciliation of headline earnings			
Profit attributable to owners of the company	27 340		14 789
Adjusted for:			
Loss/(profit) on disposal of property, plant and equipment	4 987		(2 421)
Share of profit on disposal of property, plant and equipment of equity accounted joint venture	-		(18)
Gain from bargain purchase	(174)		-
Taxation charge on headline earnings adjusting items	(1 396)		462
Headline earnings attributable to ordinary shareholders	**30 757**	140%	**12 812**
Weighted average number of shares in issue on which earnings per share are based	359 183 791		329 311 210
Weighted average number of shares in issue on which diluted earnings per share are based	361 699 763		329 377 872
Basic earnings per share (cents)	**7,61**	70%	**4,49**
Diluted earnings per share (cents)	**7,56**	68%	**4,49**
Headline earnings per share (cents)	**8,56**	120%	**3,89**
Diluted headline earnings per share (cents)	**8,50**	118%	**3,89**

Condensed Consolidated Statement of Financial Position

at 31 December 2013

Figures in R'000	Dec 2013 Reviewed	Dec 2012 Audited
ASSETS		
Non-current assets	**455 121**	**338 649**
Property, plant and equipment	395 338	290 177
Goodwill	59 382	47 001
Investment in joint ventures	-	505
Deferred tax assets	401	966
Current assets	**157 243**	**127 137**
Inventories	13 512	15 815
Loans to related parties	-	7 389
Current tax receivables	427	-
Trade and other receivables	114 017	95 074
Cash and cash equivalents	29 287	8 859
TOTAL ASSETS	**612 364**	**465 786**
EQUITY AND LIABILITIES		
Equity	**325 796**	**247 563**
Share capital and premium	225 491	175 491
Share based payment reserve	2 063	832
Foreign currency translation reserve	99	41
Retained earnings	96 017	68 427
Non-controlling interests	2 126	2 772
Liabilities		
Non-current liabilities	**156 513**	**82 382**
Interest-bearing borrowings	110 577	52 847
Provision for site rehabilitation	16 837	8 844
Deferred tax liabilities	29 099	20 691
Current liabilities	**130 055**	**135 841**
Current tax payable	925	1 112
Loans from related parties	-	5 141
Interest bearing borrowings	55 171	35 010
Trade and other payables	73 423	63 001
Provision for onerous lease	532	1 293
Bank overdraft	4	30 284
TOTAL LIABILITIES	**286 568**	**218 223**
TOTAL EQUITY & LIABILITIES	**612 364**	**465 786**
Number of shares in issue at year end	395 977 877	329 311 210
Net asset value per share (cents)	81,7	74,3
Net tangible asset value per share (cents)	66,7	60,1

Condensed Consolidated Statement of Cash Flows

for the year ended 31 December 2013

Figures in R'000	Dec 2013 Reviewed	Dec 2012 Audited
Net cash inflow from operating activities	76 677	66 303
Net cash outflow on investing activities	(144 056)	(52 893)
Net cash inflow/(outflow) from financing activities	118 044	(7 216)
Total cash movement for the year	50 665	6 195
Effect of exchange rate fluctuations on cash held	43	-
Cash and cash equivalents at beginning of year	(21 425)	(27 620)
Total cash and cash equivalents at end of year	**29 283**	**(21 425)**

Condensed Consolidated Statement of Changes in Equity

for the year ended 31 December 2013

Figures in R'000	Dec 2013 Reviewed	Dec 2012 Audited
Profit after tax	28 515	15 510
Dividends paid to non-controlling interests	(1 170)	(367)
Additional share capital issued	7	-
Premium on shares issued	50 127	-
Share issue cost	(134)	-
Foreign currency translation reserve movement	58	(12)
Share based payment expense	1 231	709
Purchase of additional share in subsidiary from non-controlling interest	(401)	-
Equity at beginning of year	247 563	231 723
Total equity at end of period	**325 796**	**247 563**
Made up as follows:		
Share capital issued	40	33
Share premium	225 451	175 458
Share based payment reserve	2 063	832
Foreign currency translation reserve	99	41
Retained earnings	96 017	68 427
Non-controlling interest	2 126	2 772
Total equity at end of period	**325 796**	**247 563**

Condensed Consolidated Segment Report

for the year ended 31 December 2013

Figures in R'000	Dec 2013 Reviewed	Dec 2012 Audited
Gross revenue		
Waste management	529 761	410 733
Compost manufacturing and sales	42 855	44 193
Landfill management	115 626	103 665
	688 242	**558 591**
Results from operating activities		
Waste management	23 736	21 449
Compost manufacturing and sales	(6 553)	(10 203)
Landfill management	33 269	20 997
	50 452	**32 243**
Depreciation		
Waste management	30 560	26 732
Compost manufacturing and sales	2 353	2 679
Landfill management	8 765	13 110
	41 678	**42 521**

The Metals recovery segment was reported separately in previous years. The segment operations were closed in 2013 and the segment is no longer separately measured or reported on.

The preparation of the Group's condensed preliminary financial results was supervised by the group financial director, AP Broodryk, CA(SA).

OVERVIEW

We are pleased to be able to report another substantial improvement in performance over the prior period. Although the prior year provides a relatively low base, there have been meaningful improvements in a number of areas of the business and certain of the investments made recently are generating pleasing returns.

Revenue grew by 23%, operating profit by 57%, profit after taxation by 84% and headline earnings by 140%. As reported previously, there has been a long term focus on leveraging the asset base and targeting operational efficiencies; the impact of these initiatives is evident in the results.

We saw strong revenue growth in the waste business and solid growth in the landfill business. This was driven primarily by growth from existing customers, growth from new customers in targeted industries and the revenue from a number of the projects commissioned in the prior and current years. Operating profit in the landfill division grew strongly, mainly as a result of the landfill operated by the Group for its own account, with muted profit growth in the waste business. The waste business however plays an important role in supplying product to the Group's landfill. Although the extent of the loss in the compost business reduced, it remains at concerning levels.

Cash flows were substantially higher than in the prior period. Operating activities produced a 16% increase in cash flow, after funding the higher levels of working capital required to support the growth, investments in existing and new operations nearly tripled with purchases of land for a second landfill, the acquisition of vehicles which were previously held under operating leases and continued investment in the FG landfill. The small outflow on financing activities in the prior period was replaced by a significant inflow due to R50 million of capital raised during the period and an increase in borrowings to fund the purchases of property, plant and equipment.

The strong focus on the core business led to pleasing progress in addressing issues and taking advantage of opportunities in the different operations. The Gauteng waste business produced encouraging growth and returns, and made a significant contribution to the profit growth produced by the landfill business. Steps were taken to remedy disappointing performances in certain other geographic areas and satisfactory rates of growth have been achieved in new areas. We targeted industries where we have some competitive advantage and where the opportunities are of a scale appropriate to our business, the results have been good and have yielded profitable progress. The roll out of our on-site waste solution continued and more customers are recognising the financial and other benefits of this waste management option. The current year was the first full year of operation for the FG landfill and a number of contracts for use of the airspace were secured with strong consequent growth in monthly tonnages and revenues. The effluent treatment business was a satisfactory contributor during the period, albeit off a low base, and with further investment in the area we expect exciting returns.

In addition to the core business, a number of projects were progressed. Envirowaste was purchased early in the financial year and the results to 31 December have exceeded our expectations. We have worked on permitting the Klinkerstene landfill site (located near Delmas) for some time and we received the necessary authorisations during the year. That allowed us to purchase the properties on which the landfill will be developed. A significant investment was made into a blending platform in a joint venture with Lafarge. This will allow us to use hazardous waste as fuel for cement kilns, thereby converting waste into energy and limiting the disposal to landfills. The blending platform will allow us to offer customers the option of disposal with no portion of waste to landfill, and for certain hazardous waste streams, the disposal to landfill of which is currently prohibited, or will be prohibited within four years, a cost effective, environmentally sound solution. We have made further investments into our businesses outside South Africa; the returns to date are acceptable and the potential is substantial.

During the period under review two of our employees were involved in the collection of waste and its subsequent disposal at landfills other than the landfills to which it should have been directed. Although this only occurred in a limited number of cases, it constituted a significant breach of our operating policies and a contravention of Waste regulations. As soon as we became aware of the issue the employees were suspended, and have subsequently left our employ, the relevant regulators were notified and a plan to remedy the matter was presented to them, the affected customer was informed and corrective action was taken. Certain of the waste which was incorrectly disposed of was excavated, together with the recommended buffer to ensure no residual environmental risk, and moved to an appropriate landfill. With the agreement of the relevant authorities we will monitor the site for 12 months to ensure no residual contamination. The remainder of the disposed of waste was traced to a landfill which was authorised to accept that waste, however certain administrative requirements for the disposal had not been complied with.

SEGMENTAL REVIEW

The waste management business grew revenue by 29% and operating profit by 11%. Relatively lower growth in operating profit was a function of higher than inflationary increases in fuel and external landfill costs, portions of which were absorbed to remain competitive, costs associated with a number of projects which were expensed, and continued investment in people. The waste management business also contributed strongly to the significant increase in the profitability of the landfill division through the levels of growth achieved in the volumes to the FG landfill.

The Group completed the acquisition of Enviro Waste, effective 1 March 2013. The purchase consideration was R13.2 million. Goodwill of R8.2 million resulted from the purchase price allocation. Had the transaction been concluded at the beginning of the year, consolidated revenue and profit would have increased by R3 million and R400 000 respectively. The business forms part of the waste management division and its performance for the year has been solid and exceeded our on acquisition expectations. Enviro Waste will continue to operate under its own brand and will form an important adjunct to the Interwaste service offering.

Compost manufacturing and sales continue to disappoint. The loss made by the business declined but remains at levels which are significant. Our ability to substantially downscale this business is constrained by the likely impact of that on the waste management business and our focus will therefore remain on minimising the losses until we are able to exit the business without adversely affecting the rest of the Group.

The landfill management business produced a 12% increase in revenue and a 58% increase in operating profit. Levels of income from FG landfill have grown in line with the strong growth in the volumes to the landfill and have supported this result. The division remains challenged by the economics of certain third party landfills, particularly the smaller contracts, where the risk adjusted cost of the capital equipment required to properly manage the landfills is not adequately reflected in tender prices. We reduced our exposure to smaller third party landfills during the period and will not retender for contracts where the returns are marginal and/or there is no strategic benefit to managing the landfills.

PROSPECTS

Once again we report that conditions on the ground remain difficult. Our customers are under pressure, the strain being experienced by the consumer seems likely to grow, which in turn will affect our customers, and the weaker rand and high levels of administered inflation directly affect our cost base.

The labour unrest affecting the platinum industry continues with negative consequences for the ordinary worker and a myriad of parties beyond the mining industry. 2014 is likely to be another difficult labour year with questionable agendas at play and minimal prospects of negotiations which move the ball forward for either workers or business.

We are confident that the Group is well positioned to deal with these headwinds but, nonetheless, expect the next year to be challenging. Our priorities will include a continuation of the strong focus on efficiencies in the core waste management business, and the roll out of services to our customers which address their changing needs, a push to complete a number of the projects in progress by their deadlines and to extract their promised returns, continued investment into innovation in the treatment and disposal of waste and into how we render our services, and a focus on growing and extracting profitability from our non South African assets.

R50 million of capital was raised during the year to strengthen the balance sheet and support growth. Despite the substantial investment in various aspects of the business, total liabilities less cash, as a percentage of equity, declined from 85% to 79%. This included the impact on gearing of purchasing vehicles with a cost of R30 million previously held under leases, and the substantial investment in long term assets. We will continue to manage our gearing down in order to reduce risk but recognise that in a growing asset based business with an emphasis on lean structures, we will face relatively high levels of gearing for some time.

DIVIDEND

The Group will not pay a dividend for the period. Platinum Waste Resource (Pty) Ltd, a partly owned subsidiary, paid dividends of R1 170 000 to non-controlling shareholders.

BASIS OF PREPARATION

The condensed consolidated preliminary financial statements are prepared in accordance with the requirements of the JSE Listing Requirements for preliminary reports and the requirements of the Companies Act of South Africa. The Listing Requirements require preliminary reports to be prepared in accordance with the framework of 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 the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting. The accounting policies applied in the presentation of these preliminary financial statements are in terms of International Financial Reporting Standards and are consistent with those applied in the previous annual financial statements. The adoption of new standards and interpretations has had no material effect on the results for the period, nor has it required a restatement of prior year results.

BASIS OF MEASUREMENT

The condensed consolidated preliminary financial statements are presented in thousands of South African Rands (R'000s) on the historical cost basis, except for share based payments which are measured at fair value.

GOING CONCERN

The condensed consolidated preliminary 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 consolidated preliminary financial statements have been reviewed by the auditors, KPMG Inc. In their report dated 19 March 2014 they have expressed an unmodified conclusion. A copy of the auditors report is available for inspection at the Company's registered office.

APPRECIATION

In February 2014 Bruce Buys, the general manager of our Gauteng division, passed away. We are grateful for the outstanding contribution Bruce made in his years at Interwaste and we will miss him. Our condolences go to his family.

The board extends it gratitude to all our employees, our customers and our investors for the effort and support during the period.

On behalf of the Board

19 March 2014

WAH Willcocks
Chief Executive

AP Broodryk
Financial Director

Corporate Information

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