Interwaste Holdings Limited

Reviewed abridged financial results for the year ended 31 December 2009

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

Interwaste Holdings Limited

Abridged statement of comprehensive income

	Reviewed December 2009 R'000	Change %	Audited December 2008 R'000
Revenue	**407 259**	**(14)**	**471 156**
Cost of sales	(241 625)		(298 229)
Gross profit	**165 634**	**(4)**	**172 927**
Other income	2 483		3 286
Operating expenses	(122 390)		(105 390)
Profit before interest and taxation	**45 727**		**70 823**
Dividend received	-		605
Net interest paid	(10 471)		(16 805)
Share of profit of associate	1 113		-
Profit before taxation	**36 369**	**(33)**	**54 623**
Taxation	(10 654)		(13 530)
Profit for the period	**25 715**		**41 093**
Other comprehensive income	-		-
Total comprehensive income for the year	**25 715**	**(37)**	**41 093**
Comprehensive income attributable to:			
Owners of the parent	24 971		39 611
Non-controlling interest	744		1 482
	25 715		**41 093**
Reconciliation of headline earnings:			
Comprehensive income attributable to ordinary shareholders	24 971		39 611
Adjusted for profit on disposal of property, plant and equipment	(1 817)		(417)
Headline earnings attributable to ordinary shareholders	**23 154**	**(41)**	**39 194**
Weighted average number of shares in issue on which earnings per share are based	307 205 721		272 061 517
Basic earnings per share (cents)	8.1	(44)	14.5
Profit on disposal of property, plant and equipment (after tax) (cents)	(0.5)		(0.1)
Headline earnings per share (cents)	**7.6**	**(47)**	**14.4**
Weighted average number of shares in issue on which earnings per share are based	307 205 721		272 061 517
Equity instrument	-		57 249 691
Fully diluted weighted average shares in issue	307 205 721		329 311 208
Fully diluted earnings per share (cents)	8.1	(33)	12.0
Fully diluted headline earnings per share (cents)	7.6	(36)	11.9

Abridged statement of financial position

	Reviewed December 2009 R'000	Audited December 2008 R'000
ASSETS		
Non-current assets	**327 320**	**296 280**
Property, plant and equipment	272 448	245 262
Goodwill	49 590	48 332
Intangible assets	185	179
Investments in joint ventures	2 911	-
Deferred taxation	2 186	2 507
Current assets	**140 123**	**144 488**
Inventories	37 425	41 320
Trade and other receivables	86 212	83 576
Taxation	10 655	5 505
Bank and cash	5 831	14 087
Total assets	**467 443**	**440 768**
EQUITY AND LIABILITIES		
Equity attributable to equity holders of the company	**261 864**	**237 704**
Issued capital	25	25
Share premium	175 466	175 466
Reserves	1 572	1 572
Accumulated profits	84 801	60 641
Non controlling interest	4 220	3 819
Total equity	**266 084**	**241 523**
Non-current liabilities	**85 232**	**93 720**
Financial liabilities, borrowings and operating lease straight line liabilities	54 285	68 495
Deferred taxation	30 947	25 225
Current liabilities	**116 127**	**105 525**
Current borrowings	50 172	54 793
Trade and other payables	39 694	46 969
Taxation	881	2 592
Bank overdraft	25 380	1 171
Total equity and liabilities	**467 443**	**440 768**
Number of shares in issue at period end	336 311 208	253 979 551
Net asset value per share (cents)	77.4	93.6
Net tangible asset value per share (cents)	62.6	74.5

Abridged statement of changes in equity

	Share capital R'000	Share premium R'000	Share-based payment reserve R'000	Retained income R'000	Total attributable to equity holders of the group R'000	Non controlling interest R'000	Total equity R'000
Balance at 1 January 2009	25	175 466	1 572	60 641	237 704	3 819	241 523
Comprehensive income for the year	-	-	-	24 971	24 971	744	25 715
Dividends paid	-	-	-	(465)	(465)	-	(465)
Disposal of Subsidiary	-	-	-	(346)	(346)	(343)	(689)
Total changes	-	-	-	24 160	24 160	401	24 561
Balance at 31 December 2009	**25**	**175 466**	**1 572**	**84 801**	**261 864**	**4 220**	**266 084**

Abridged statement of cash flows

	Reviewed December 2009 R'000	Audited December 2008 R'000
Cash flow from operating activities	40 464	51 114
Cash flow from investing activities	(54 097)	(70 382)
Cash flow from financing activities	(18 832)	8 818
Net decrease in cash and cash equivalents	**(32 465)**	**(10 450)**
Cash and cash equivalents at beginning of period	12 916	23 366
Cash and cash equivalents at end of period	**(19 549)**	**12 916**

Abridged segment report

	Reviewed December 2009 R'000	Audited December 2008 R'000
Gross revenue		
Waste management	255 748	296 747
Compost manufacturing and sales	57 146	53 606
Landfill management, construction and rehabilitation	94 365	120 803
	407 259	**471 156**
Profit before interest and taxation		
Waste management	23 746	46 559
Compost manufacturing and sales	3 441	4 545
Landfill management, construction and rehabilitation	18 540	19 719
	45 727	**70 823**
Depreciation		
Waste management	17 788	14 488
Compost manufacturing and sales	2 050	2 120
Landfill management, construction and rehabilitation	6 129	4 706
	25 967	**21 314**
Segment assets		
Waste management	344 257	301 097
Compost manufacturing and sales	9 491	33 159
Landfill management, construction and rehabilitation	113 695	106 512
	467 443	**440 768**
Segment liabilities		
Waste management	108 284	65 810
Compost manufacturing and sales	7 599	62 001
Landfill management, construction and rehabilitation	85 476	71 434
	201 359	**199 245**

Notes:

No geographical segments are reported as the Group operates mainly in South Africa and the international operations do not meet the thresholds for reportable segments specified in IFRS 8.

The following disclosures in the segment report for the prior year were reclassified:

- Gross revenue of R7,5m, from waste management to compost manufacturing and sales;
- Profit before interest and tax of R3m from compost manufacturing and sales to waste management;
- Assets of R32,5m from waste management to compost manufacturing and sales;
- Liabilities of R58m from waste management to compost manufacturing.

OVERVIEW

2009 was one of the most challenging years the Group has faced in its 20 year history. The decline in the South African market meant that many of our clients curtailed production and hence their generation of waste, market conditions became more competitive and we chose to walk away from a number of opportunities where our competitors were prepared to tender for work at prices below cost, and we had to address a business structure we had geared for expansion on the back of the significant growth we had experienced through to 2008.

Despite an overall reduction in turnover for the year, the Group's trade receivables increased. Many of our larger clients stretched their payment terms and significant effort was applied to working capital management. The position stabilised towards the end of the year and cash collections are improving.

We continued to invest in the underlying businesses where favourable opportunities arose. While these investments resulted in profits and positioned the business well for the future, increasing capital assets while reducing gearing resulted in severe pressure on cash flows.

In an effort to control costs we looked at lengthening the period for which we use our fleet prior to replacement. This was however not successful and resulted in a significant increase in operating expenses. During the latter part of the year a favourable fleet replacement and maintenance programme was negotiated and implemented.

In response to the difficult trading conditions, we implemented a restructuring and retrenchment programme, the costs of which contributed to the rise in operating costs. The new structure has been in place for a number of months and it is pleasing to see that costs have reduced and certain of the expected synergies between the logistics and landfill operations are being realised. As a part result of these measures, and recognising that there is seasonality in the business, the midyear attributable profits of R6,3 million increased to R24,9 million by year end.

Waste management

The decreases in revenue and profit were a function of reduced volumes from our clients, the nationwide strike in April and high maintenance costs.

Existing client volumes are improving, a number of new contracts have been secured, several new initiatives implemented, and a fleet replacement programme is in place which is showing positive results.

Revenue and profitability in the metals recovery business reduced sharply during the year as metals prices fell significantly from their highs in 2008. The business broke even for the majority of the 2009 financial year and has returned to profitability with recent increases in metals prices.

Compost manufacturing and sales

Revenue was slightly up and profits decreased. While this was largely a function of the difficult environment, significant management time was devoted to the division and its performance improved over the course of the year. The division expanded its export market and this is proving to be a promising source of new business.

Landfill management, construction and rehabilitation

Revenue decreased due to the postponement of several landfill gas projects. The business successfully tendered for a number of new landfill management contracts, the benefits of which should be realised during the 2010 financial year.

While the decrease in Group revenue and profit for the year is disappointing, despite the very difficult operating conditions we produced profits and emerged leaner and more focused. The latter part of 2009 and the early months of 2010 evidenced an improvement in all aspects of the business and we are hopeful that this will continue.

FINANCIAL RESULTS

Despite a 14% decline in revenue, gross profit only reduced by 4%. This was achieved through tight control of variable expenses and was partly a result of the restructuring and retrenchment programme implemented during the year.

Unfortunately, high maintenance costs and the costs of the the restructuring and retrenchment programme resulted in a 16% increase in operating expenses and contributed heavily to the decline in profits.

Net interest paid decreased as a result of lower interest rates and the reduction in the Group's borrowings.

While the Group produced a positive cashflow from its operating activities, it was a net utiliser of cash for the year. It continued to invest in the underlying businesses by way of property, plant and equipment and joint venture initiatives, gearing reduced despite the increase in capital assets, inventories were managed down but the decrease was more than offset by an increase in receivables as our customers stretched their payment terms, and payables decreased. The net cash outflow has been stabilised and the Group generated cash during the first months of 2010.

Salient features

- ***Revenue and earnings down***
- ***Profits despite extremely difficult operating conditions***
- ***Significant ongoing investment in the business***
- ***Restructuring completed***

PROSPECTS

While there are some signs of improvement in the South African economy, trading conditions remain difficult. The reduction in revenue per client that we saw in 2009 is however stabilising and we are starting to see growth in existing revenues at the same time as we generate additional sources of revenue from existing and new clients.

The Group has restructured and cut costs, cash management is looking more positive and a number of new initiatives have been implemented that bode well for the future.

SHARE CAPITAL

There were no alterations to the authorised share capital during the year. The number of shares in issue increased at the beginning of the year as a result of a clawback of shares by management relating to a warranty provided in a prior period.

DIVIDEND POLICY

The Group will not pay a dividend for the 2009 year. Dividends will be paid once market conditions and the anticipated cash requirements for the business permit.

BASIS OF PREPARATION

The abridged annual financial statements have been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards "IFRS", the AC 500 Standards as issued by the Accounting Practices Board, the presentation and disclosure requirements of IAS 34 – Interim Financial Reporting, the Listings Requirements of the JSE Limited and the requirements of the South African Companies Act.

The abridged annual financial statements are presented in thousands of South African Rands ("R'000") on the historical cost basis.

The accounting policies applied for the year are consistent with those applied in the prior year.

These abridged annual financial statements incorporate the financial statements of the company and its subsidiaries (the "Group") and the Group's interest in associate entities.

AUDIT OPINION

The auditors, RSM Betty & Dickson (Johannesburg), have reviewed the abridged annual financial statements for the year ended 31 December 2009. The auditors' unmodified review report is available for inspection at the company's registered office.

SUBSEQUENT EVENTS

Subsequent to the year end the Group disposed of its Namibian operations for a consideration of R5 million.

STATEMENT ON GOING CONCERN

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

APPRECIATION

Our people made an outstanding effort during a very difficult period. The directors offer their thanks to our staff for their efforts and to our clients for their continued support.

By order of the Board
31 March 2010

WAH Willcocks	**I John**
Chief Executive Officer	**Financial Director**

CORPORATE INFORMATION

Non executive directors: EG Dube (Chairperson), GR Tipper
Executive directors: WAH Willcocks (CEO); I John (FD); BL Willcocks; L Grobbelaar
Registration number: 2006/037223/06
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Transfer secretaries: Computershare Investor Services 2004 (Pty) Limited
Designated adviser: Vunani Corporate Finance

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