Interwaste Holdings Limited

Reviewed condensed consolidated preliminary financial statements for the year ended 31 December 2014

OVERVIEW

We are pleased to be able to report another improvement in performance over the prior year. Despite the impact of the platinum industry strike in the first half, the current year was marked by continued strong growth.

Revenue grew by 21%, operating profit grew by 67%, profit after taxation grew by 60% and headline earnings grew by 50%. At an earnings per share level the growth figures were lower as a result of the increased number of shares in issue following the capital raisings in 2013 and 2014.

The results were achieved in a constrained economic environment and reflect a significant focus on developing new income streams and controlling costs.

The revenue growth arose mainly in the waste management business. We secured a number of new customers, there was pleasing organic growth from many existing customers, our non-South African businesses performed strongly and a number of investments made in prior years produced higher income streams. In accordance with our strategies for those businesses, growth in the compost manufacturing and landfill management operations was deliberately constrained and was limited to relatively more profitable opportunities.

Cash flows from operating activities were substantially higher than the previous year; they were however matched by a materially higher level of investment in the underlying businesses. The excess of investment over operating inflows was funded through a capital raising in the latter part of the year. The more significant investments included the acquisition of several properties which the Group had leased, the continued acquisition of vehicles previously held under operating leases, the development of a transfer station in Wynberg and the acquisition of a range of equipment related to our core business that has contributed to our ability to provide a more comprehensive range of services to our waste customers.

SEGMENTAL REVIEW

The waste management business grew revenue by 28% and operating profit by 94%. The significant growth in operating profit was a function of leverage as volumes increased, strong contributions by certain of our new higher margin businesses and continued cost control.

There was a material improvement in the compost manufacturing and sales business with the loss reducing from R6.6 million in the previous year to R1.2 million. The operation is an important part of our customer service offering and now makes a positive contribution to group overheads. We have been able to achieve some distribution scale on the retail side and will continue to look for opportunities to grow sales and control costs in order to restore profitability.

The landfill management business produced a minimal increase in revenue and an 18% increase in operating profit. Levels of income from FG landfill continued to grow and supported this result. The division further reduced its exposure to non-profitable third party landfills and now has a core portfolio that generates satisfactory returns, although this is subject to change as contracts mature and new awards are made through government tender processes. An important part of the division's function is the sourcing and development of new landfill space, or alternative options to landfills, and pleasing progress was made in this area. The Group has a number of environmental impact studies in progress that should result in future landfill space with significant value.

INITIATIVES

The Group progressed a number of initiatives during the year. The Envirowaste business has been effectively integrated and is performing well under its own brand. It operates largely in the northern suburbs of Johannesburg and is an important source of waste for the FG landfill.

The blending platform joint venture we have with Lafarge is operating. In addition to the environmental benefits of reducing the volume of oil type liquids disposed of to landfill (and such disposals will become illegal in the next few years), use of the material as fuel for cement kilns, and subsequent use of the resultant ash, results in clean and effective disposal of hazardous materials.

Further progress was made on the development of the Klinkerstene landfill with important aspects of the required authorisations now in hand. This facility will be a vital source of landfill space to the Group, and to parts of greater Gauteng, in the medium term.

Greens Waste, previously a joint venture, is now wholly owned, and delivered a credible performance on the back of the turnaround that was implemented when we acquired control of the business in the prior year.

We entered into several more ventures during the period. One of those was Hazclic, a specialised industrial cleaning service, which provides an exciting extension to the Group's service offering. While the venture is still in an early phase, it is showing promising signs.

Our on-site business, where we assume responsibility for all aspects of a customer's integrated waste management, continues to gain acceptance and has produced encouraging savings for those customers that have implemented the service.

We extended our geographical reach outside South Africa during the year and substantially increased the resources allocated to the operations. The significant decline in the oil price, and lower coal prices, will impact on our customers' operations in certain of the areas in which we operate, however our operations are cash generative and we remain of the view that their long term prognosis is sound.

We developed a transfer station in Wynberg which accepted its first loads late in 2014. The facility provides the Group, and certain of our major clients, with the ability to bulk waste collected in the northern part of Johannesburg for subsequent disposal at the FG landfill. This will result in cost savings and more efficient operations as, without the commute to Olifantsfontein, vehicles will be able to do more customer loads per day and fewer vehicles will be required to achieve the same service levels. In addition, the number of vehicles going into the landfill can be reduced and the bulk loads can be run out to the landfill at off peak times.

Our commodities trading and effluent treatment businesses performed solidly. We have built expertise in these areas and have invested strongly behind our people; it is therefore gratifying to see the businesses providing the level of returns we had originally envisaged.

We raised R81 million of capital during the period, subsequent to the R50 million raised in 2013. The year was characterised by high levels of investment and despite the fund raising, interest-bearing borrowings less cash, expressed as a percentage of total equity, increased from 41.9% to 47.9%. A part of this was due to bringing debt on balance sheet as a result of owning rather than leasing vehicles and certain properties. Significant focus is placed on ensuring that our investments provide appropriate returns and on managing our gearing levels.

PROSPECTS

The 2015 financial year is likely to be difficult. Competition between trade unions seems to be intensifying and this often leads to increased levels of labour unrest, and militant and illegal behaviour by elements of striking workers. While workers bear a substantial portion of the resultant costs through lost wages and benefits, the cost to corporate South Africa of an unfortunate approach to labour relations is meaningful.

The last five years have seen significant increases in landfill disposal costs at H:H (high hazard) landfills. The increases were a function of the increasing costs of operating the landfills as legislative requirements tightened, and the ability of landfill owners to price aggressively given their control of a limited resource. A consequence of the regular steep increases in landfill costs was that alternate forms of disposal became economically viable, and presented opportunities for those companies able to develop alternatives to H:H landfill disposal. During 2014 we saw material reductions in H:H landfill disposal costs for certain waste streams. This created some disruption in the market and resulted in initial market share gains for the responsible landfill owners, but if applied consistently, and if sustainable in the context of rising landfill operating costs, should enable us to provide waste disposal to our customers at lower prices.

The reduction in the oil price and consequent reduction in the price of diesel, although tempered by the new fuel taxes and the impact of the weak rand, should provide an element of saving on our vehicle operating costs. This saving will however be required to fund above inflation increases in other operating costs.

The recent load shedding has affected many of our customers and will continue to do so. Where appropriate we have installed back up power and have been able to manage through the dark periods.

Given the headwinds in our environment, we are cautious as to the outlook for the next year. We will carefully target those markets where we have the best capacity to produce meaningful growth, we will control costs tightly and we will look to further leverage the skills base and relationships we have developed. While our primary focus will be on organic growth, we will remain vigilant for acquisitions where we believe that long term value is available.

DIVIDENDS

The Company will not pay a dividend for this period. Interwaste Cleaning (Pty) Ltd, a partly owned subsidiary, paid dividends of R 459 000 to non-controlling shareholders.

BASIS OF PREPARATION

The condensed consolidated preliminary financial statements are prepared in accordance with the requirements of the JSE Limited Listings 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 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 Reporting 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 condensed consolidated preliminary financial statements are in terms of International Financial Reporting Standards and are consistent with those applied in previous financial statements except for standards, interpretations and amendments that are newly effective for the period ended 31 December 2014, and which have become applicable.

BASIS OF MEASUREMENT

The condensed consolidated preliminary financial statements are presented in thousands of South African Rands (R'000s) on the historical cost basis.

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, 24 March 2015 they have expressed an unmodified conclusion. The auditor's report does not necessarily report on all the information in this announcement or financial statements. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement, they should obtain a copy of the auditor's report together with the accompanying financial information from the issuer's registered office.

PREPARATION OF PRELIMINARY RESULTS

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

APPRECIATION

We extend our gratitude to all our staff who contributed to the result this year and to our shareholders and other stakeholders for your valued support.

On behalf of the Board
24 March 2015

AP Broodryk
Financial Director

WAH Willcocks
Chief Executive Officer

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")

Condensed Consolidated Statement of Comprehensive Income

for the year ended 31 December 2014

Figures in R'000	**Dec 2014 Reviewed**	**% Change**	**Dec 2013 Audited**
Revenue	834 474	21%	688 242
Cost of sales	(421 169)		(378 628)
Gross profit	**413 305**	33%	**309 614**
Other Income	-		679
Operating expenses	(264 419)		(218 163)
Earnings before interest, tax, depreciation and amortisation	**148 886**	62%	**92 130**
Depreciation and amortisation	(64 870)		(41 678)
Results from operating activities	**84 016**	67%	**50 452**
Net finance costs	(19 580)		(10 200)
Finance costs	(20 368)		(11 335)
Finance income	788		1 135
Profit before taxation	**64 436**	60%	**40 252**
Taxation expense	(18 890)		(11 737)
Profit for the year	**45 546**	60%	**28 515**
Profit attributable to:			
Non-controlling interests	1 224		1 175
Owners of the Company	44 322	62%	27 340
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Foreign currency translation reserve movement on foreign operations	(39)		58
Total comprehensive income for the year	**45 507**	59%	**28 573**
Total comprehensive income attributable to:			
Non-controlling interests	1 224		1 175
Owners of the Company	44 283		27 398
Reconciliation of headline earnings			
Profit attributable to owners of the company	44 322		27 340
Adjusted for:			
Loss on disposal of property, plant and equipment	2 318		4 987
Gain from bargain purchase	-		(174)
Taxation charge on headline earnings adjusting items	(649)		(1 396)
Total non-controlling interest effects of adjustments	9		-
Headline earnings attributable to ordinary shareholders	**46 000**	50%	**30 757**
Weighted average number of shares in issue on which earnings per share are based	409 464 398		359 183 791
Diluted weighted average number of shares in issue on which diluted earnings per share are based	417 189 252		361 699 763
Basic earnings per share (cents)	**10,82**	42%	**7,61**
Diluted earnings per share (cents)	**10,62**	40%	**7,56**
Headline earnings per share (cents)	**11,23**	31%	**8,56**
Diluted headline earnings per share (cents)	**11,03**	30%	**8,50**

Condensed Consolidated Statement of Financial Position

at 31 December 2014

Figures in R'000	Dec 2014 Reviewed	Dec 2013 Audited
ASSETS		
Non-current assets	**658 412**	**455 121**
Property, plant and equipment	598 590	395 338
Goodwill	59 382	59 382
Deferred tax assets	440	401
Current assets	**241 765**	**157 243**
Inventories	14 747	13 512
Current tax receivables	120	427
Trade and other receivable	164 992	114 017
Cash and cash equivalents	61 906	29 287
TOTAL ASSETS	**900 177**	**612 364**
EQUITY AND LIABILITIES		
Equity	**453 083**	**325 795**
Equity attributable to owners of the Company	450 192	323 669
Share capital and premium	306 498	225 490
Share-based payment reserve	3 295	2 063
Foreign currency translation reserve	60	99
Retained earnings	140 339	96 017
Non-controlling interests	2 891	2 126
Liabilities		
Non-current liabilities	**252 208**	**156 513**
Interest-bearing borrowings	191 378	110 577
Provision for site rehabilitation	23 964	16 837
Deferred tax liabilities	36 866	29 099
Current liabilities	**194 886**	**130 056**
Current tax payable	3 036	925
Interest-bearing borrowings	87 436	55 171
Trade and other payables	104 414	73 423
Provision for onerous lease	-	532
Bank overdraft	-	5
TOTAL LIABILITIES	**447 094**	**286 569**
TOTAL EQUITY & LIABILITIES	**900 177**	**612 364**

Condensed Consolidated Statement of Cash Flows

for the year ended 31 December 2014

Figures in R'000	Dec 2014 Reviewed	Dec 2013 Audited
Net cash inflow from operating activities	104 387	79 655
Net cash outflow on investing activities	(265 846)	(145 236)
Net cash inflow from financing activities	194 074	116 452
Total cash movement for the year	32 615	50 871
Effect of exchange rate fluctuations on cash held	9	43
Cash and cash equivalents acquired	-	(207)
Cash and cash equivalents at beginning of year	29 282	(21 425)
Total cash and cash equivalents at end of year	**61 906**	**29 282**

Condensed Consolidated Statement of Changes in Equity

for the year ended 31 December 2014

Figures in R'000	Dec 2014 Reviewed	Dec 2013 Audited
Profit after tax	45 546	28 515
Share issue cost	-	(134)
Dividends paid to non-controlling interests	(459)	(1 170)
Share capital raised	6	7
Premium on shares issued	81 002	50 127
Foreign currency translation reserve movement	(39)	58
Share-based payment expense	1 232	1 231
Purchase of additional share in subsidiary from non-controlling interest	-	(402)
Equity at beginning of year	325 795	247 563
Total equity at end of year	**453 083**	**325 795**
Made up as follows:		
Share capital issued	46	40
Share premium	306 452	225 450
Share-based payment reserve	3 295	2 063
Foreign currency translation reserve	60	99
Retained earnings	140 339	96 017
Non-controlling interests	2 891	2 126
Total equity at end of year	**453 083**	**325 795**

Condensed Consolidated Segment Report

for the year ended 31 December 2014

Figures in R'000	Dec 2014 Reviewed	Dec 2013 Audited
Gross revenue from external customers		
Waste management	676 330	529 761
Compost manufacturing and sales	40 989	42 855
Landfill management	117 155	115 626
	834 474	**688 242**
Results from operating activities		
Waste management	46 024	23 736
Compost manufacturing and sales	(1 215)	(6 553)
Landfill management	39 207	33 269
	84 016	**50 452**
Depreciation		
Waste management	54 183	30 560
Compost manufacturing and sales	2 475	2 353
Landfill management	8 212	8 765
	64 870	**41 678**

Corporate Information

Non-executive directors: A Kawa (Chairperson), LJ Mahlangu, PF Mojono, GR Tipper, BL Willcocks
Executive directors: WAH Willcocks (CEO), AP Broodryk (FD), LC Grobbelaar
Registration number: 2006/037223/06
Registered address: P O Box 382, Germiston, 1400
Company secretary: Allen de Villiers
Telephone: (011) 323 7300
Facsimile: 086 576 8152
Transfer secretaries: Computershare Investor Services (Pty) Limited
Sponsor: Grindrod Bank Limited

www.**interwaste**.co.za

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