INTEGRATED ANNUAL REPORT 2017

Howden

Revolving Around You™

ABOUT THIS REPORT

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Strategic overview

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Financial statements

BASIS OF PREPARATION — SCOPE AND BOUNDARY

The 2017 integrated annual report includes the operations of Howden Africa Holdings Limited and its subsidiaries (the Company, Group or Howden) in South Africa. The information in this report covers the financial and non-financial performance of the Company for the year ended 31 December 2017. However, where it is relevant to include information post year-end, this has been incorporated and noted.

Howden aims to achieve the highest standards in all disclosures in this report to provide meaningful, accurate, complete, transparent and balanced information to stakeholders. The board and board committees were actively involved in financial disclosures made in this report.

In defining the report and information included, we have drawn from the governance guidelines outlined in the King IV Report on Corporate Governance for South Africa 2016, the JSE Listings Requirements, the Companies Act, No. 71 of 2008 (Companies Act) and the International <IR> Framework.

The Group follows International Financial Reporting Standards (IFRS) to compile its annual financial statements. The 2017 financial statements have been prepared under the supervision of the Chief Financial Officer, Marinella Vigouroux, and have been audited and assured by Ernst & Young Inc., the Group’s external auditors.

The requirement for sustainability assurance is considered annually and is at this stage not deemed necessary. This will be reviewed annually.

This report contains the most material issues of concern to all our stakeholders.

For additional information visit our website: **www.howden.co.za**

MATERIALITY

Materiality is determined with consideration to the International <IR> Framework, King IV and internal policies. The organisation defines material issues as those matters having the potential to affect, the business’ strategy, business model, sustainability or one or more of the capitals over the short, medium and long term taking into account the likelihood and consequence of the issues.

FORWARD-LOOKING STATEMENTS

The statements made within the integrated annual report may contain forward-looking information including statements regarding our intent, belief or current expectations with respect to Howden's businesses and operations, market conditions, results of operation and financial condition, capital adequacy, specific provisions and risk management practices. Investors/shareholders are cautioned not to place undue reliance on these forward-looking statements. Forward-looking statements are based on Howden's current expectations and involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied in such forward-looking statements. These statements are based on a number of assumptions that are subject to change. The integrated annual report speaks only as of this date and the period reported on. Howden disclaims any duty to update the information herein.

BOARD RESPONSIBILITY STATEMENT

The board of directors acknowledges its responsibility to ensure the integrity of the integrated annual report. The board has accordingly applied its mind to the integrated annual report and, in its opinion, the integrated annual report addresses all material issues, and fairly presents the integrated performance of the organisation and its impacts. The integrated annual report has been prepared with consideration to the recommendations of King IV. The board authorised the integrated annual report for release on 28 March 2018.

Ian Brander
Chairman of the board
Duly authorised by the board

Suleman Badat
Independent non-executive director and Chairman of the Audit and Risk Committee
Duly authorised by the board

COMPANY SECRETARY CERTIFICATE OF COMPLIANCE

In my opinion as Company Secretary, I hereby certify, in terms of section 88(2) of the Companies Act 71 of 2008, that for the period ended 31 December 2017, Howden Africa Holdings Limited has lodged with the Registrar of Companies all such returns as are required of a public company in terms of the Act and that all such returns are true, correct and up to date.

CR Masson
Company Secretary

28 March 2018

HIGHLIGHTS AND PERFORMANCE INDICATORS

Revenue

R1 743.0m

+8.6% (2016: R1 604.5m)

Operating profit

R316.2m

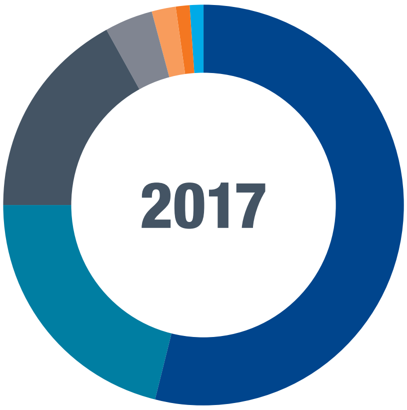
+27.7% (2016: R247.6m)

Cash and cash equivalents

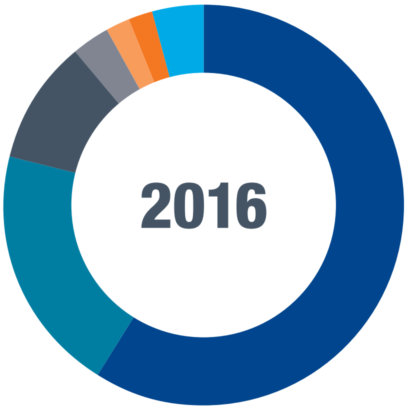
R1 176.4m

+29.4% (2016: R909.3m)

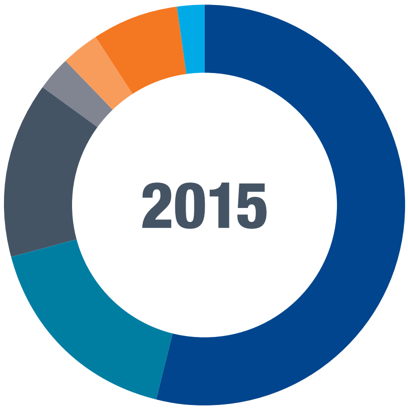
Revenue by market segment (%)



54 Power generation
21 Mining and minerals
17 Other industrial
4 Petrochemicals
2 HVAC
1 Steel and cement
1 Transport

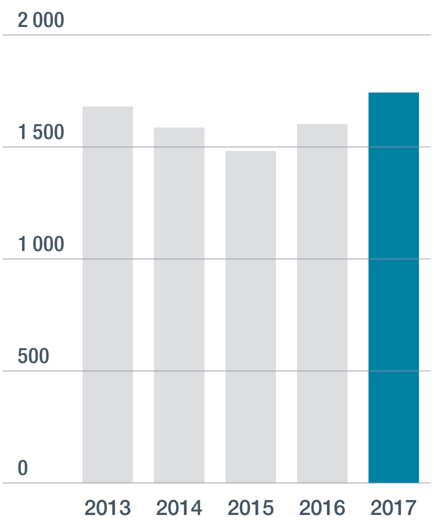


59 Power generation
20 Mining and minerals
10 Other industrial
3 Petrochemicals
2 HVAC
2 Steel and cement
4 Transport

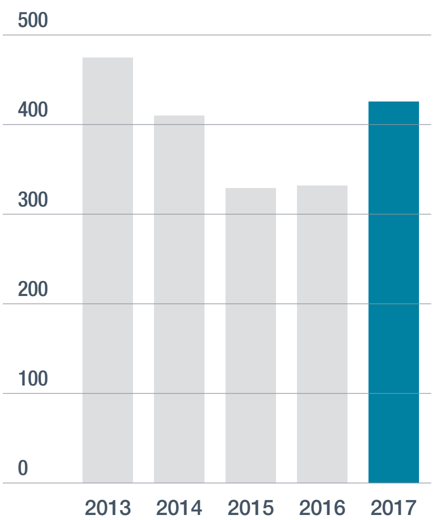


54 Power generation
17 Mining and minerals
14 Other industrial
3 Petrochemicals
3 HVAC
7 Steel and cement
2 Transport

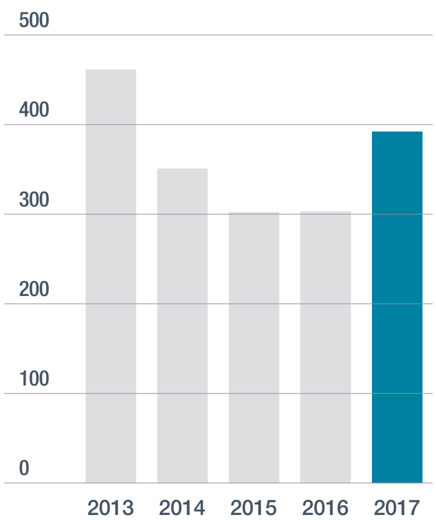
Revenue (Rm)



Headline earnings per share (cents)



Profit before tax (Rm)



WORKFORCE

Total employees **544**	Total new employees **39**	Total hours worked on all sites **3 144 923**
HDSA employees (%) **64**	Total apprentices **24**	Total training spend (R) **3 974 169**

HEALTH AND SAFETY

Employees tested for chronic illness **113**	Employees tested for medical fitness **244**	TRIR **0.97**
Lost-time injuries **2**	Number of fatalities **Zero**	Fatal injury rate (ratio) **0.00**

ENVIRONMENTAL

Water consumption per man hour (litres) **9 775**	Gas consumption per man hour (kg) **0.065**	Fuel consumption per man hour (litres) **0.010**
Electrical consumption (kWh) **1 056 457**	Total volume of recycled waste (tonnes) **11.909**	Total volume of heavy recycled steel (tonnes) **84.24**

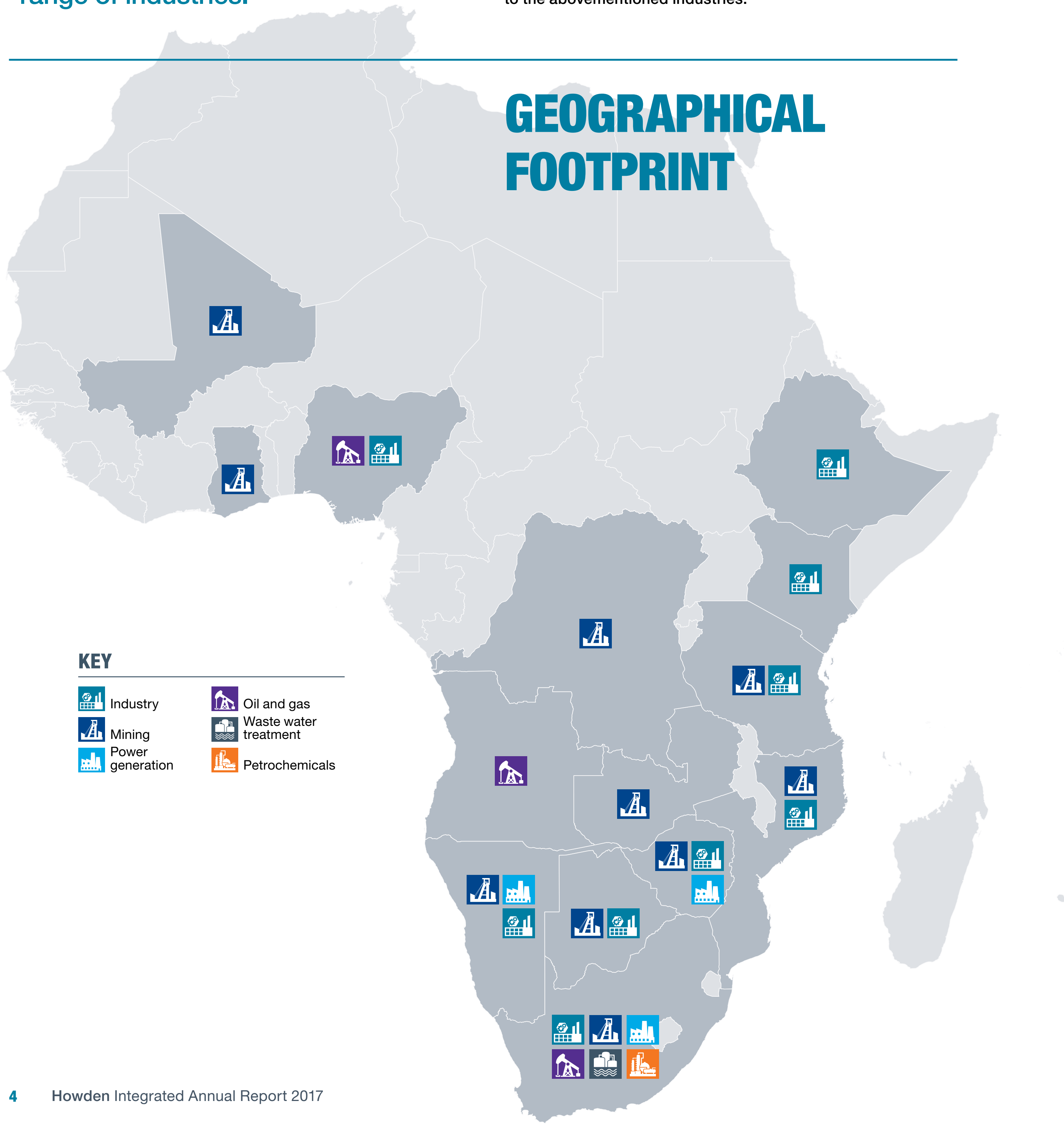
COMPANY PROFILE

Howden is a market-driven, customer-oriented company. Its main business activities are the design, manufacture and marketing of specialised air and gas-handling solutions for a wide range of industries.

The Group's major industries supplied include power generation, petrochemical, mining, iron and steel, cement, water treatment and general industry. Howden is also a distributor of ESAB welding and cutting equipment and consumables.

Our core product and service capabilities are represented by our divisions, namely: Fans and Heat Exchangers, Environmental Control and Fabrication Technology who all supply bespoke engineering products and services to the abovementioned industries.

GEOGRAPHICAL FOOTPRINT



OUR VISION

Our vision is to be Africa's leading applications engineer, providing lifetime solutions in air and gas handling.

We create long-term value for our customers by providing them with specialised engineered products for all their air and gas handling requirements and a commitment to creating shared value by offering customers long-term aftermarket value propositions.

OUR BRAND PROMISE

Our supportive people and our leading engineering combine to deliver the best long-term value for our customers.

OUR VALUES

CUSTOMERS TALK, AND WE LISTEN

The voice of the customer will always drive the development of our strategic plan, and this will result in:

- A focus on quality and speed always
- Unique, value-added and differentiated solutions
- Robust, repeatable processes that consistently exceed customer expectations
- Positive problem resolution
- Competitive customer conversions

THE BEST TEAM WINS

Team-oriented, involved associates are our most valuable resource, and we are passionate about attracting, developing and retaining the best talent. Howden associates win because we:

- Exhibit high integrity and respect for others
- Seek fact-based, root cause solutions, not blame
- Promote from within
- Are non-political and not bureaucratic
- Are accountable for best-of-class results, and deliver
- Strive for a safe work environment
- Believe that winning is fun

LEADING-EDGE INNOVATION DEFINES OUR FUTURE

Individual and organisational creativity will drive:

- Breakthrough ideas for technology, products, solutions and processes
- Differentiated customer solutions
- Out-of-the-box ideas, big and small, that add value to our world
- Above-market organic growth

WE COMPETE FOR SHAREHOLDERS BASED ON OUR PERFORMANCE

To consistently attract and retain loyal shareholders, we must deliver best-of class results for:

- Profits
- Working capital
- Cash flow

CONTINUOUS IMPROVEMENT (KAIZEN) IS OUR WAY OF LIFE

The Colfax Business System (CBS) is our culture, and we will deploy it with absolute passion. Additionally, we will:

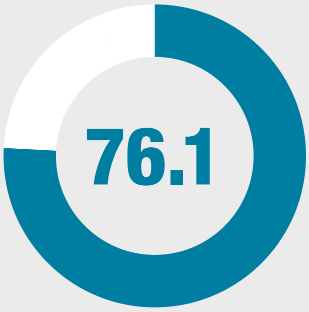
- Step out of our comfort zone by setting breakthrough objectives
- Experiment and learn everyday
- Aggressively and continuously eliminate waste in every aspect of our business processes
- Benchmark the best, and then better them

GROUP OPERATIONS

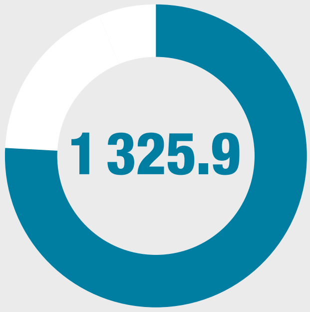
Fans and Heat Exchangers division

The division's principal products are centrifugal and axial fans, air and gas rotary heat exchangers and cleaning equipment. The products as supplied by the division are integral parts of the coal-fired boiler and emission control systems used by the power industry. Significant sales are also made to the mining, petrochemical, iron and steel and other process industries.

Revenue (%)



Revenue (Rm)



Environmental Control division

The division supplies equipment and systems for use in processes which reduce atmospheric pollution generated by industrial plants, and in support of environmental legislation introduced in recent years.

Revenue (%)

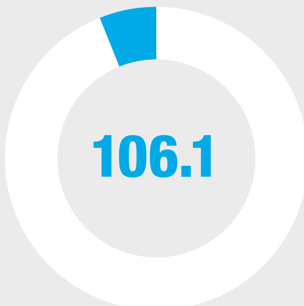
Revenue (Rm)

Fabrication Technology division

The division distributes equipment and filler metals for virtually every welding and cutting application. The products and services are utilised in many industries including energy, machinery, power generation, fabrication, construction, ship building, transportation and many others.

Revenue (%)

Revenue (Rm)



PRODUCTS

- Boiler fans
- Heat exchangers
- Site services
- HVAC fans
- Standard and industrial fans and blowers
- Main surface fans
- Auxiliary mine fans
- Centrifugal blowers
- Dust extraction on coal mines
- Mine cooling and heating
- Ventilation on demand
- Engineering solutions
- Application engineering

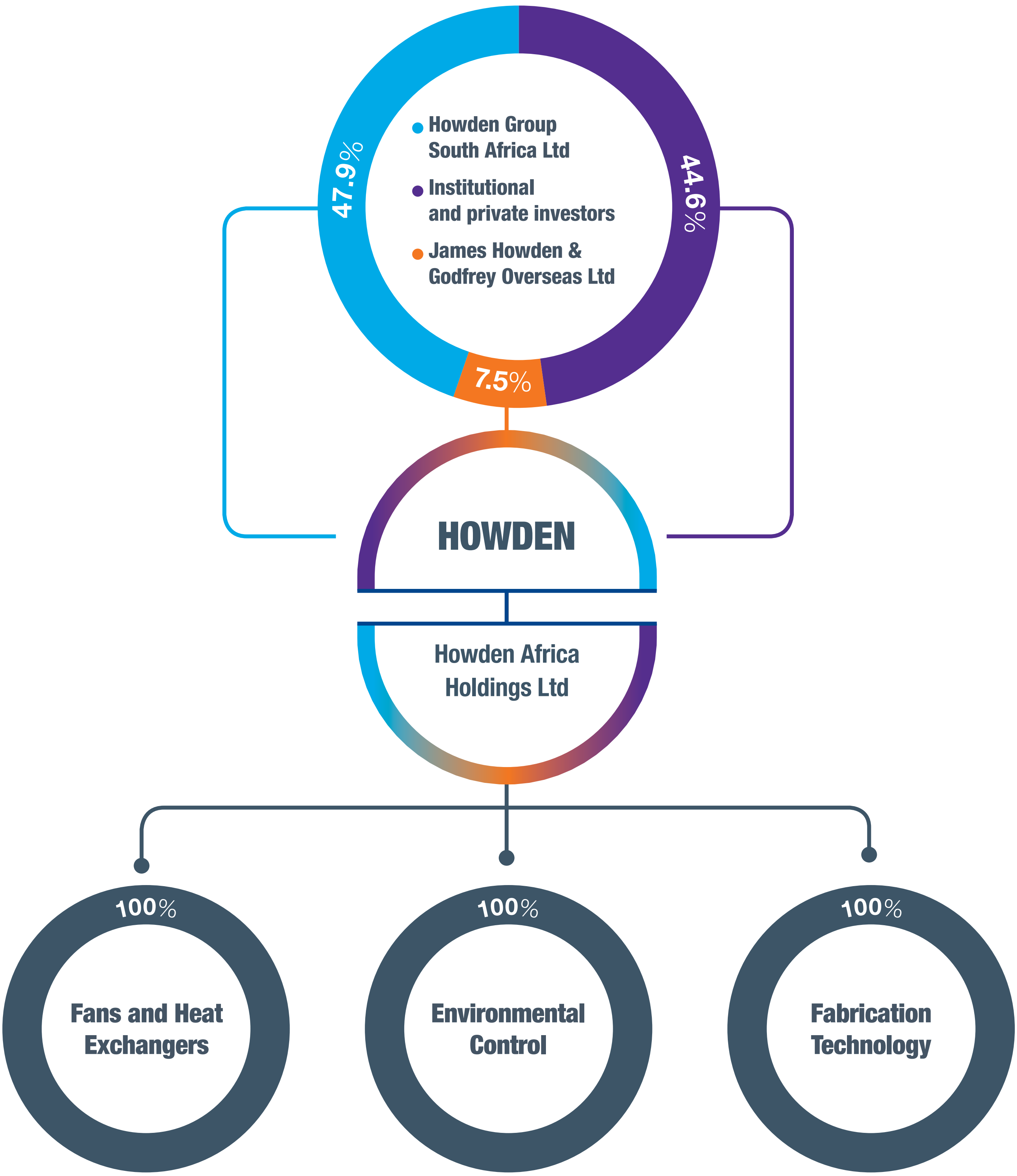
PRODUCTS

- Gas cleaning plant
- Combustion engineering
- Furnaces
- Incinerators
- Process compressors
- Refrigeration equipment
- Water chillers
- Positive displacement blowers
- Waste water treatment
- Control and instrumentation
- Mine cooling and heating
- Engineering solutions
- Application engineering

PRODUCTS

- Air gouging and exothermic cutting
- Gas equipment
- Welding consumables
- Welding equipment
- Plasma cutting and torches
- Welding automation and robotics
- Cutting automation

GROUP STRUCTURE



BUSINESS MODEL

THE COLFAX BUSINESS SYSTEM

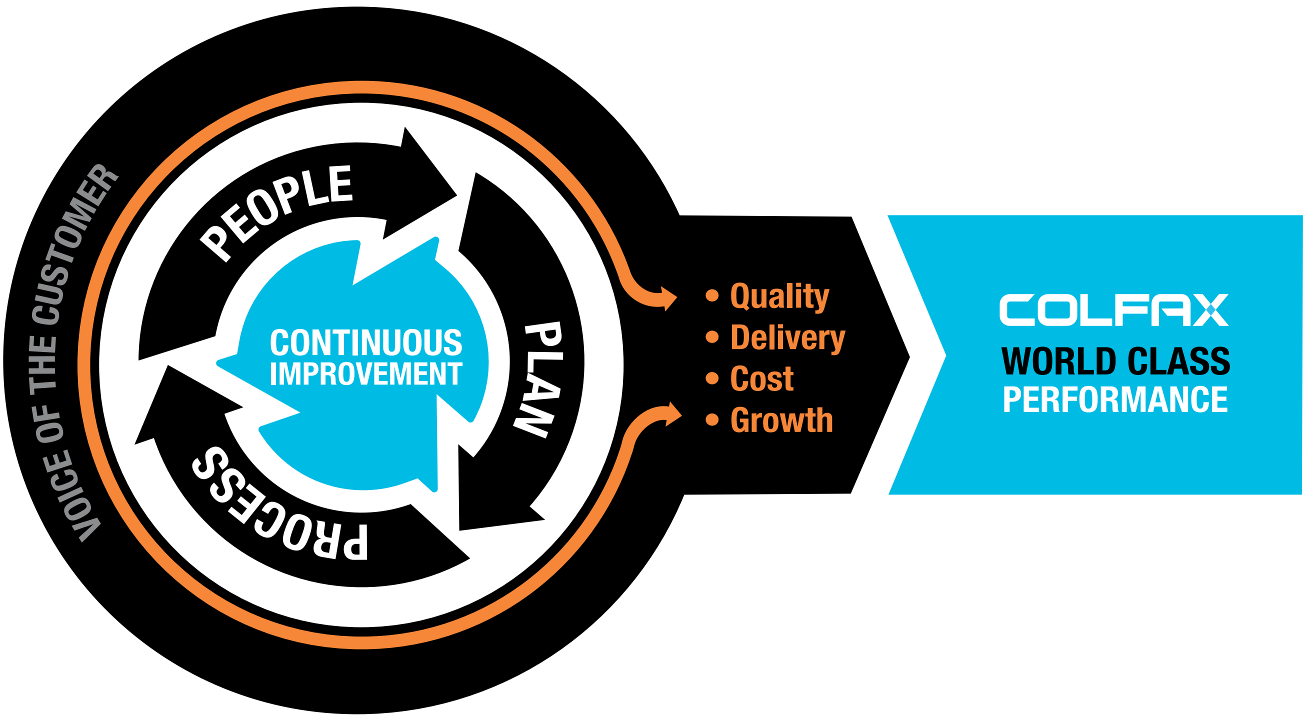
The business is aligned to the Colfax Business System. The Colfax Business System (CBS) is our unique business-management system. It is a repeatable, teachable process that we use to create superior value for our customers, shareholders and associates.

Our culture is rooted in our five core values. CBS provides the tools and techniques to ensure that we are continuously improving our ability to meet or exceed customer requirements on a consistent basis.

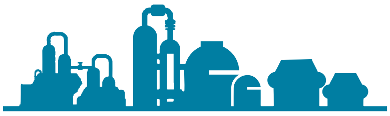
By using the CBS tools to drive the implementation of these plans, we are able to uniquely provide the customer with the world-class quality, service and product delivery, cost efficiency and growth they require — on a sustainable basis.

We develop key strategic plans, which are based on the voice of the customer. In these plans, we articulate our market realities, our threats, risks, opportunities and most importantly, our vision forward. The execution and measurement of our plans are vital, and we achieve this through our processes.

CBS has our core values at its foundation, with a key focus on the customer, hard targets and metrics and a systematic methodology to make sure we can execute and sustain in every segment.



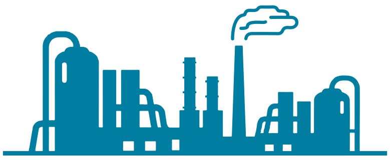
OUR TOP SIX INDUSTRIES



Waste water treatment

The demand for water treatment plant is growing with the need to process large volumes of waste water from municipal sewerage systems and industrial processes such as food, drink, pulp and paper, where liquid organic effluents are produced as a by-product.

We have developed our turbo compressor technology for the specific needs of water treatment plants. Our highly efficient design, fitted with variable inlet guide vanes and variable vane diffuser system, offers a unique high performance across the entire duty range.



Cement

Cement production is one of the world's most energy intensive industries. Current cement making processes impose a wide range of demands on process fans, including high abrasion, excessive dust build-up, and high temperatures.

Howden supplies the many and varied fan types required by the cement industry, ranging from large custom built fans for process critical applications, top re-engineered units for the lower specification and more general applications.

Iron and steel

Some of today's most arduous applications for Howden products are to be found in the iron and steel industry.

The need to move large volumes of air or gas, in many cases at high pressures and high dust burdens, places stringent demands on the mechanical design of the impeller.

In ore beneficiation processes such as sintering and pelletising, as well as in basic oxygen and direct reduction steelmaking, Howden fans are operating in high temperature and erosive environments.

Power generation

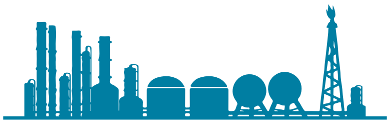
The world is increasingly dependent on having a reliable supply of electric power – and our products play a central role in supporting the power producers who need efficient, reliable fans, rotary regenerative heat exchangers, compressors and other equipment to keep the generating process running continuously.

Howden has supplied over 40 000 boiler draught fans and almost 5 000 rotary heat exchangers in over 100 countries making it a leading supplier to the industry.

Mining

We engineer and construct turnkey ventilation, refrigeration and gas cleaning systems for mine ventilation anywhere throughout the world. We also integrate equipment into existing mines, process plants, or supply standalone units as per our customers' specified duties.

Howden has over 160 years of experience in meeting our customers' mining ventilation needs in some of the most remote and difficult underground mining environments in the world.



Petrochemical

The Petrochemical industry is one of the world's most complex, and we have matched these unique requirements by engineering products for use at sites that produce liquid fuels, plastics and materials for manufacturing industries.

Bespoke boiler fans are supplied in large numbers to petrochemical customers, and our compressor technologies are well suited for use as utility gas compressors for nitrogen and air, or in large critical process applications. Our experience enables us to support the achievement of customer efficiency objectives through the optimisation of equipment and systems.

BUSINESS MODEL CONTINUED

Capital inputs	How we live our values	Key inputs
HUMAN CAPITAL We depend on the expertise of our engineers, contracted service providers and localised labour to generate value. Safety of our individuals is a key management focus and is imperative to organisational success.	Training and development of people is an ongoing activity. Collaboration with key stakeholders facilitates a growing base of skills and capabilities.	A diverse, engaged workforce of **544** appropriately skilled and experienced employees A strong and motivating management team Industry training and development Focused Health and Safety Programme Apprenticeship programme Investment in service provider training
SOCIAL AND RELATIONSHIP CAPITAL Developing and maintaining trusted relationships is a foundation to value creation. Our stakeholder needs are an important consideration in determining the direction of the business.	Viewing all our key stakeholders as "customers", understanding what their requirements are and how we can create shared value for all.	Partnerships with customers and suppliers Social investment spend Enterprise/supplier development loans Community engagement and discussions Long-term key customer agreements Quarterly investor relations meetings held Mutual respect for and understanding of local communities
INTELLECTUAL CAPITAL Our proprietary rights and licences, reputation, execution excellence, product and service innovation, underpinned by a disciplined and structured set of internal processes and procedures, represent the value of our brand to our customers.	Investing time and financial capital into our engineering capabilities, looking at the best range of technology solutions for our customers' application, and continuously innovating.	Patented technologies Experienced and skilled engineers Colfax Business System (CBS) Access to best in class manufacturing processes Access to **170** patents Supplier training in applications
MANUFACTURED CAPITAL Our production and training facilities, operational and engineering processes and investment in plant and equipment and technology, allow us to manufacture and maintain specialised engineered products for all our customers' air and gas handling and fabrication technology requirements.	Investing in equipment and technology to improve the products and service offering to the customer with the commitment of creating shared value by offering customers longer term aftermarket value propositions.	Property, plant and equipment to the value of **R90 485 000** Total hours worked in workshops: **901 665** (2016: 749 622)
NATURAL CAPITAL Our activities have an unavoidable impact on the environment as we require steel, water, and energy to generate value.	We proactively identify opportunities to contribute to environmental programmes of customers and end-users by applying our diverse range of technology solutions, particularly in air pollution control. Looking at all opportunities to mitigate the environmental impact of our activities by continuously reviewing our activities and what improvements we could make that will reduce the environmental impact.	Painted components Energy/kwh: **1 056 457** (2016: 1 823 017) Water/kℓ: **9 775** (2016: 8 880) Steel/t: **213.58** (2016: 158.54)
FINANCIAL CAPITAL Working capital and sufficient guarantee facilities are specific financial inputs required to maintain the business. Our financial capital is reinvested in all the other capitals in a measured way to grow and sustain our business, after careful consideration of the returns they will generate.	Providing shareholder value with growth in earning per share (EPS) year-on-year.	Market capitalisation of **R2.25 billion** Capital expenditure and investment in other capitals Cash generated from operations Net interest-bearing debt Guarantee facilities

Outcomes	Actions to enhance outcomes
Amount paid in salaries and wages: **R470 000 000** (2016: R483 000 000) Total hours worked in workshops: **901 665** (2016: 749 622) **3 500 000** incident-free hours at main plant Lost-time injuries: **2** (2016: 6) Total HDSA employees: **64%** (2016: 62%)	Demonstrating honesty, integrity and fairness at all times Honouring our commitments Caring for the physical health and emotional well-being of employees Valuing, embracing and celebrating diversity Leading by example and celebrating successes Encouraging, developing and empowering employees to take responsibility for their goals and activities Hiring the best talent available in the market Identify and develop high-potential/performing employees Ensure identified talent is retained **For further details, see the in-focus feature on page 26.**
B-BBEE Contributor Status under new codes: **Level 4: 85.64 points** (2016: Level 4: 80.41 points) Professional relationships with local communities and business Harmonious working environment with local communities Creation of employment and transfer of skills to community	Focus on interaction within community stakeholder forums local to customer sites Focus on sourcing goods and services local to customer site Drive for localisation of social investment spend Interest and security free loans for supplier and enterprise development **For further details, see the in-focus feature on page 26.**
Number of accessible patents: **170** Spend on bursaries: **R999 785** (2016: R896 531) Employee development spend: **R3 974 169** (2016: R3 914 249) OTD peaked at 97% with improvements to manufacturing process Employees trained: **194** (2016: 186) Efficiencies in selected processes via client CBS	Continuously growing and developing employees Nurturing the best engineering talent with application expertise Supporting education as key to the sustainable future of South Africa **For further details, see the in-focus feature on page 26.**
Production office, plant and equipment Capital expenditure of **R12 443 000** Depreciation of **R13 979 000**	Focus on maintaining local production Focus on cost effective production Maintain compliance with regulatory bodies Invest in equipment for improved capabilities
Recycled 100% categorised scrap steel Tonnes of hazardous waste removed from site: **25.26** (2016: 25.84) Tonnes of non-hazardous waste removed from site: **27.76** (2016: 37.86) Total recycled waste excluding steel (tonnes): **11.91** (2016: 9.87)	Engaged the Council for Scientific and Industrial Research to reduce consumption of energy, water and improve waste management Fibreglass removed as part of mix load hazardous waste All hazardous waste safely disposed of and recorded at Platkop Landfill Field site Recertifying under ISO 14001:2015 from ISO 14001:2004 Electricity saving initiatives within the Company **For further details, see the in-focus feature on page 26.**
Operating profit: **R316 159 000** Headline earnings per share (HEPS): **426.58 cents** Earnings per share (EPS): **426.38 cents** Employment costs: **R472 000 000** Interest earned: **R77 494 000**	Shareholder value — improved defined capital allocation model, review of acquisition allocation, B-BBEE shareholding allocation, dividend policy or utilisation of cash reserve for buy-back ○ Cash flow management procedures in place ○ Customer funding options

INPUTS	KEY PROCESSES

INPUTS

HUMAN CAPITAL

SOCIAL AND RELATIONSHIP CAPITAL

INTELLECTUAL CAPITAL

MANUFACTURED CAPITAL

NATURAL CAPITAL

FINANCIAL CAPITAL

KEY PROCESSES

HEALTH, SAFETY AND THE ENVIRONMENT

Sustained Health, Safety and the Environment culture across the business.

WORLD CLASS PROJECT EXECUTION

Demonstrate a high sense of urgency.

Execute robust, repeatable processes that consistently meet or exceed customer expectations.

Promote positive problem resolution.

Demonstrate mastery of CBS tools to help build process capability.

CUTTING EDGE APPLICATION ENGINEERING AND SOLUTIONS

Create unique, value-added and differentiated solutions.

Supportive people behind equipment that give us the edge.

Diligent and dedicated team with a proven track record.

Dedicated people developing air and gas handling solutions that prolong plant-life and allow your operations to prosper.

LIFE CYCLE SUPPORT

Create products and services that improve quality of life and environmental stewardship.

Whole life support giving the very best long-term value and piece of mind to customers.

SUPPORTED AND UNDERPINNED BY:

COLFAX BUSINESS SYSTEM (CBS)	STRONG SAFETY CULTURE	TALENTED WORKFORCE

OUTPUTS	OUTCOMES

OUTPUTS

SAFE WORKING conditions for all stakeholders

World class **AFTERMARKET CARE**

SERVICE AGREEMENTS with customers

Providing the **BEST SOLUTIONS** for customers' vital operations

BREAKTHROUGH IDEAS for technology, products, solutions and processes

BESPOKE ENGINEERING solutions individually made to measure in the most stringent criteria for air and gas handling

RELIABLE TECHNOLOGY that delivers even in the most extreme conditions

Meeting the unique challenges in **MAXIMISING PERFORMANCE** and reliability of plant processes

ENVIRONMENTALLY-CONSCIOUS supply chain

OUTCOMES

HUMAN CAPITAL

Permanent employees **544**

Total hours worked in workshops **901 665**

Salaries and wages paid **R470m**

Reduction in **TRIR by 31%**

SOCIAL AND RELATIONSHIP CAPITAL

B-BBEE rating under new codes **Level 4 Contributor**

Professional relationships with local communities and business

Earn repeat and sustainable customers' business

Long-term customer trust

INTELLECTUAL CAPITAL

Expenditure on skills development **R6 552 889**

Apprentices trained **24**

Educational bursary beneficiaries **172**

MANUFACTURED CAPITAL

Cost-effective production

NATURAL CAPITAL

281.66 TONNES of waste removed from site

226.36 TONNES removed for recycling

FINANCIAL CAPITAL

Operating profit of **R316m**

Income tax paid **R117m**

SUPPORTED AND UNDERPINNED BY:

ETHICS AND GOOD GOVERNANCE | LEGISLATIVE AND REGULATORY COMPLIANCE | RISK MANAGEMENT

OUR STRATEGY

We drive a **"One Howden"** approach to all strategic initiatives investing and empowering our people. To ensure we deliver results and create shareholder value we:

STRENGTHEN THE FOUNDATION

- We drive to attract and retain talent across all parts of our business.
- We invest in skills development and training — an essential part of strengthening our in-house and supply chain capabilities.
- We strive for an ever increasing Health and Safety culture — achieved by local and Howden Global initiatives.
- We encourage open, sharing and transfer of application knowledge — a fundamental strength of the business.
- Engagement surveys collect relevant feedback — directing our energies towards an improved working environment and guiding the leadership of our people.
- We promote extensive use of CBS tools — driving continuous improvement, efficiencies and value add for all stakeholders.
- Compliance and ethics — associates are trained on the importance of conducting all our business with integrity.
- B-BBEE — all elements of the DTI scorecard are actively addressed — with clear objectives to attain an improved level.
- Creating social value is an essential part of the overall business strategy — we actively engage with communities in the localities we perform our business, leading to creation of opportunities within our supply chain.

COMPLETED 2017

- Key Talent development plans and succession plans updated.
- Recognition as a Top Employer for the fourth consecutive year, with higher rating year-on-year.
- Safety record improved with zero fatalities, 3.5 million accident-free hours at the main manufacturing site and an overall Total Recordable Incident Rate (TRIR) down by 31% on prior year.
- Engagement improvement projects launched based on the outputs from the 2016 Engagement Survey.
- Voice of the Customer (VoC) undertaken to ensure we capture changing needs of the customers.
- On-time delivery peaked at 97% during the year — however sustained improvement is our target.
- Business ethics training mandatory training completed for customer-facing associates.
- Achievement of Level 4 B-BBEE Rating under the Amended Codes.
- Supplier Enterprise Development.
- Local Community Engagement Team established and proactively engaged with local community stakeholders.

TARGET 2018

- Active management of personal development plans for the talent pool.
- Continue to drive the "One Howden" culture, offering internal opportunities from personal development across Divisions — an integral part of our retention strategy.
- Strengthen the safety culture throughout the business via local and Global initiatives. Drive for zero incidents and a TRIR reduction of at least 20%.
- Deliver results and improvements from Annual Employee Engagement Surveys.
- Extend use of CBS tools and roadmaps directing improvements in customer service levels.
- Continue to implement VoC engagements.
- Achieve consistent on-time delivery of at least 95% throughout the year.
- Ensure all new associates undertake business ethics training as part of induction.
- Build on current Level 4 B-BBEE Rating under the Amended Codes, targeting improvements in ratings on our journey to the next Level.
- Supplier enterprise development via incubation.
- Continue with proactive engagement with local community stakeholders and create further opportunity for local supplier utilisation.

TARGET 2019

- Continue to invest in our associates, mentor and guide individual talent development.
- Maintain position of one of the Top 20% best employers within the industry.
- Sustain a strong EHS culture and target further 20% reduction in the overall TRIR.
- Empower associates to enable growth and overall business performance improvements.
- Continue to implement VoC engagements.
- Extend CBS leadership and skills across the business.
- On-time delivery maintained at 96% level throughout the year.
- Achieve a positive change in the B-BBEE rating.
- Expand on Community Engagement Plans, identifying opportunities for mutually beneficial interactions with communities.

ORGANIC GROWTH

- Apply our experience in supply of products and services for emission control and water treatment plants.
- Continue to invest in a wide range of technologies to respond positively to customer needs.
- Expand our revenue growth beyond South Africa's borders by 5% year on year.
- Expand our revenue growth in AFM activity, target to change the New Build : Aftermarket mix by 5% and expand non-Power aftermarket activities by 5%.
- Identify opportunities for growth by leveraging products and services accessible from Howden Global acquisitions.
- Grow market share for the Fabrication Technology division by 15% within the next three years.

COMPLETED 2017

- Commissioned equipment for five waste water treatment plant upgrade projects in South Africa.
- Increased revenue by 8.6%.
- Expanded our business outside of South Africa to 16%.
- Introduced our Ventilation on Demand products and services to customers in our territory.
- Strengthened management within the Fabrication Technology division.

TARGET 2018

- Increase our business beyond the borders of South Africa by 10%.
- Achieve increased market share for the Fabrication Technology division to double digit market share.
- Diversify the business to industries outside of our traditional Power market.
- Engage with Global Partners on introduction of new acquired technology and products to the Mining and Waste Water markets.

TARGET 2019

- Further increase our business beyond the borders of South Africa by 5%.
- Change the Power/non-Power mix by 5%.
- Achieve growth by securing orders for new products and services available from our Global Partners.
- Actively participate in major environmental projects which are anticipated to commence ahead of the 2020 National Environmental Management Air Quality Act.

INNOVATE AND ACQUIRE

- Engage talent on innovation projects.
- Seek out acquisition targets to strengthen and extend our offerings, either via bolt-on acquisitions or adjacent technologies.
- Drive innovation and in particular explore and implement use of DDA.

COMPLETED 2017

- Innovation workshop launched.
- Refreshed acquisition pipeline and process for acquisition target identification.
- Engaged with Global partners on DDA strategies.

TARGET 2018

- Initiate regular innovation workshops.
- Continue to engage with the acquisition pipeline process.
- Leverage the Howden Global DDA strategy.

TARGET 2019

- Identify and secure additional product and services through acquisition.
- Launch local DDA projects supported as appropriate from Global partners.

RISK MANAGEMENT

HOWDEN'S APPROACH

Howden is faced with a wide variety of risks and managing these risks is critical to its success and sustainability. Risks can have a strategic, financial, operational and reputational impact and effectively managing risk by way of a consistent process aids the Company in the delivery of its strategic objectives.

Howden's risk management model is based on:

- Regularly reviewing the Company's risk capacity, appetite and tolerance;
- Monitoring changes, the ongoing effectiveness of business controls; and the social and political environment that could alter current and planned operations and objectives;
- Setting strategic objectives;
- Identifying risks to achieving those objectives;
- Assessing the likelihood and consequence of risks;
- Accepting or mitigating identified risks;
- Assessing residual risk after mitigation measures;
- Modifying controls as necessary; and
- Independent risk-based audits and reporting.

High and major corporate risks are entered into the Executive Committee's risk register and recorded in the corporate risk logs which are reviewed by the Risk Committee on a quarterly basis. Risks are scored to assess their possible effects. Once this review has occurred, the high and major risks are presented to the Audit and Risk Committee and thereafter to the board of directors.

Risk capacity, appetite and tolerance

The Company's risk capacity is to ensure short- and long-term liquidity is maintained. All available cash and loan facilities are in place to safeguard the business and ensure that it does not face any long-term liquidity issues.

Howden's risk appetite focuses on ensuring that the business is sustainable which includes achieving annual growth through the strategic plan and supporting initiatives, avoiding any negative impact on brand reputation and mitigating any negative market conditions that could significantly impact Howden's financial performance.

Risk tolerance is defined as operational parameters which helps to ensure that the business does not breach its risk appetite. This is completed by setting limits and monitoring, mitigating and giving frequent feedback on performance.

The CEO (Risk Manager) identifies the risk capacity, appetite and tolerance in consultation with the Risk Committee and the CEO then annually reviews and recommends the risk appetite and tolerance levels to the Audit and Risk Committee. After consideration the Audit and Risk Committee will recommend, on an annual basis, to the board that the risk appetite and tolerance be approved.

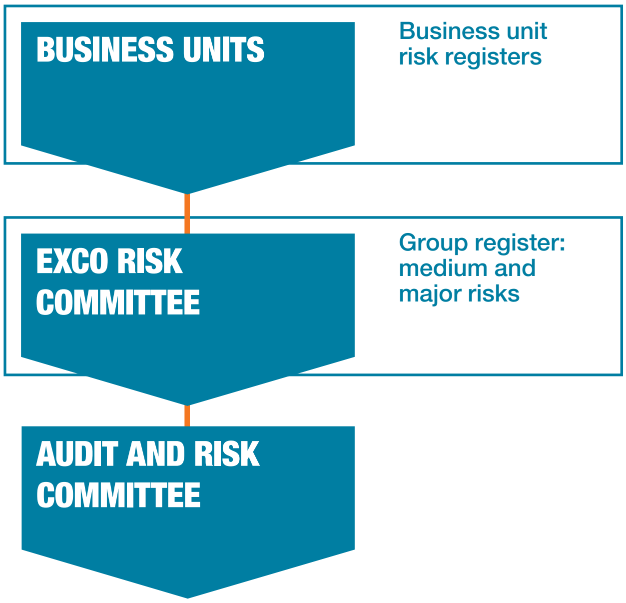
Risk types on which risk limits and controls are set and monitored are:

- Health, safety and environment;
- Human capital management;
- Supply and purchase terms and conditions;
- Markets/customer exposure;
- Financial control;
- Corporate governance;
- Design and operation of supplied and serviced equipment;
- Operational;
- Insurable; and
- General legislation and regulatory compliance.

Each Howden business unit applies a consistent methodology to identify and rate risks by likelihood and financial impact. Categorisation and rating of each risks as either low, medium, high or major then occurs which determines the intensity of the subsequent risk management process. Mitigating actions are put in place which are monitored and reported on at every level. Reporting occurs quarterly commencing in February.

At the operational level, identified risks are entered in operational risk registers in a descriptive but abbreviated form. Risks rated high or major are then extracted and entered in detail on operational risk logs.

RISK MANAGEMENT REPORT PROCESS



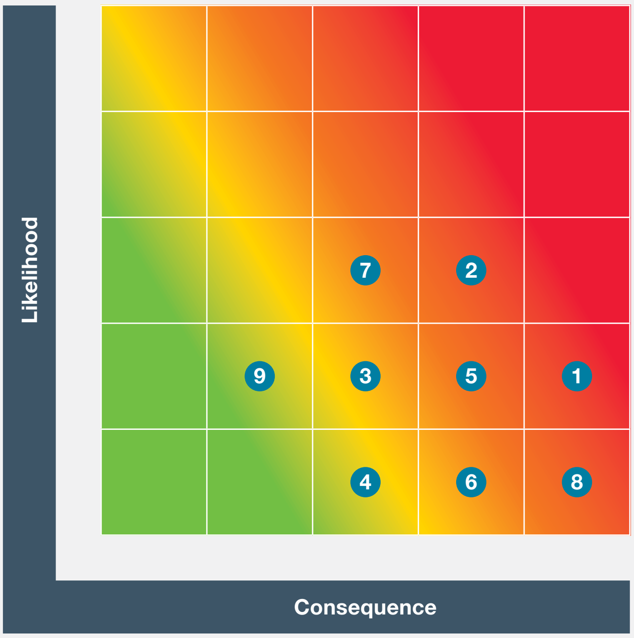
The Company's risk levels are determined using a likelihood/consequence assessment table.

For detailed information on the Risk Committee's composition and structure, responsibilities, meetings and activities, please refer to the Audit and Risk Committee review on page 48.

The board is satisfied that the risk process is effective as it continuously identifies and evaluates risks and ensures that these risks are managed in line with the Company's business strategy.

Howden's key risks as extracted from the Group's risk register are considered and consolidated into its material issues. The material issues highlighted on pages 20 to 25 of this report include all key risk areas and have been agreed to by the board as being those issues which can materially impact the creation of stakeholder value in the short, medium and long term.

ASSESSMENT TABLE



Our key risk areas at the end of 2017 included:

1. Loss of key customers
2. Failure to win key contracts
3. Downturn in a critical industry sector
4. Industrial action and social unrest
5. Transformation and society
6. Health and safety
7. Uncertain regulatory environment
8. Legislative and regulatory non-compliance
9. Skills retention

Key

Low — Major

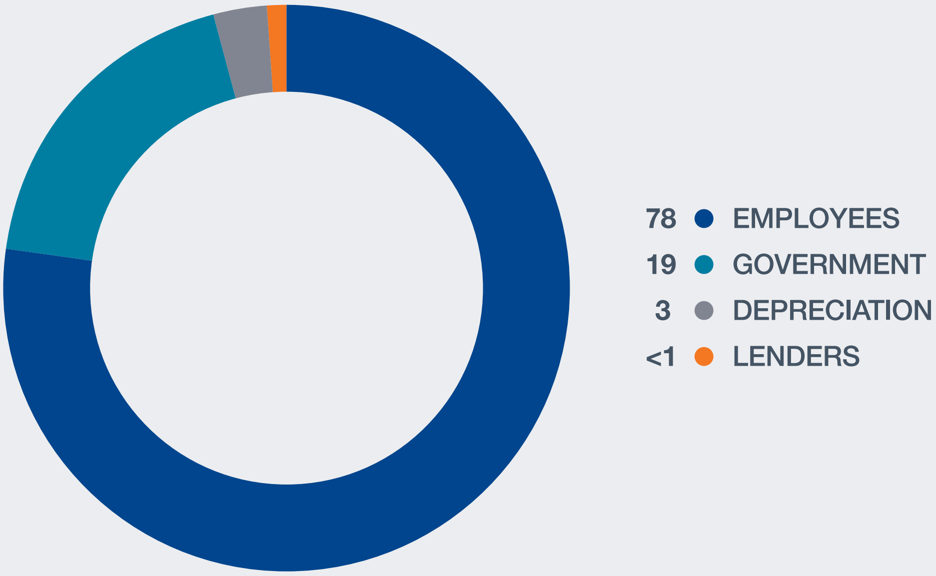
The Company will continue to focus on the existing risk areas for the near future until it is satisfied that they are sufficiently mitigated. In addition, the business will be investigating potential risks associated with cyber security and the financial health of its customers going forward.

VALUE ADDED STATEMENT

for the year ended 31 December 2017

R'000	2017	2016
Revenue	**1 742 950**	1 604 535
Investment income	**77 494**	55 566
Less: Paid to suppliers for materials and services	**(941 021)**	(859 742)
Total value added	**879 423**	800 359
Distributed as follows:		
To employees as salaries, wages and other benefits	**471 863**	483 812
To lenders finance costs	**145**	72
To depreciation and amortisation	**15 915**	16 086
To government as tax expense	**113 252**	84 684
Total value added distributed	**601 175**	584 654
Portion of value added reinvested to sustain and expand the business	**278 248**	215 705
Total value added distributed and reinvested	**879 423**	800 359

TOTAL VALUE ADDED (%)



OUR STAKEHOLDERS

The management and board acknowledge their responsibilities to their stakeholders and are committed to communicating in a transparent and effective manner, while engaging with each stakeholder group in line with their needs.

Stakeholder engagement is entrenched in the business and aligned with the King IV Report and Integrated Reporting Council (IIRC) discussion papers.

Company stakeholders have been identified and methods of stakeholder engagement are continuously refined. Formal and informal stakeholder engagement takes place across a wide range of platforms to ensure all needs and concerns are identified and addressed. The outcomes of all stakeholder engagement platforms are reviewed by both management and the Sustainability Committee, of which the CEO is a member and active participant. Following this, key areas and issues are identified thereby informing our future strategy and the corrective action to be taken.

KEY STAKEHOLDERS

OUR STAKEHOLDERS CONTINUED

	Customers	Employees
Identification/ Introduction	**As a supplier of high-value engineering solutions, it is imperative that Howden develops a keen understanding of the individual requirements of all customers.**	**Good employee communication is essential to business success. At the most basic level, employees who do not know what is expected of them seldom perform to their full potential.**

Engagement	○ Face-to-face interactions across all levels within customer organisations
	○ Key Account Management
	  ○ Customer service surveys
	  ○ Customer and distributor industry events
	○ Annual material issues engagement via the Sustainability Committee
		○ Annual Global Employee Engagement Survey
		○ Global Safety Survey
		○ Industrial relations meetings
		○ Regular structured meetings on topics of strategic and operational importance
		○ Cross-functional workshops primarily focusing on continuous improvement themes
		○ Ongoing internal communication via emails, newsletters and intranet
		○ Annual material issues engagement via the Sustainability Committee

Key areas/issues	○ Customer technologies ○ Regulatory demands on customers ○ On time delivery ○ Customer retention ○ Customer purchasing strategies ○ Customer procurement policies ○ Customer community interaction ○ Understanding key customer organisational structures	○ Strengthen the internal safety culture throughout the business ○ Employee personal development ○ Collaboration between business streams and functions ○ Core Values and Brand Promise ○ Reduction of bureaucracy and waste within the business processes
Actions taken	○ Identifying customer needs through meetings, exhibitions and conferences ○ Central CSI Team engaging with community forums ○ Supplier development and localisation of our supply chain ○ Negotiated framework agreements with key customers ○ Driving improvements in operational performance using CBS tools	○ Introduction of regular company newsletter ○ EHS Workshops held with Du Pont ○ Annual Engagement outputs reviewed and action plans generated ○ Focus groups help shape outputs from surveys ○ Drive to strengthen an ongoing improvement in company culture
Future focus	○ Expanding customer base ○ Strengthening customer relationships ○ Continuing our work within the communities local to our business activities	○ Global engagement to enhance survey inputs & outputs ○ Safety initiatives ○ Communication improvements ○ People development ○ Talent management ○ Drive ongoing improvement using CBS tools

Shareholders and Investors	Suppliers	Communities
It is important to promote effective communication with shareholders to ensure all relevant information is disseminated, ensuring their confidence in our business is maintained.	**Selection and monitoring of our suppliers has ensured our offerings to our customers are of superior quality and value, enabling us to meet or exceed customer expectations.**	**By implementing the CSI programme through a collaborative approach with our stakeholders enables us to empower individuals and groups by providing them with the skills, support and knowledge they need to grow.**
○ Regular Shareholder meetings ○ Annual General Meeting ○ SENS announcements ○ Website — access to investor relations section. ○ Face-to-face investor meetings with executive management ○ Annual material issues engagement via the Sustainability Committee	○ Annual material issues engagement via the Sustainability Committee. ○ Supplier performance management ○ Face to face visits to suppliers and potentials suppliers	○ Corporate social investment (CSI) committee engagement directly with communities ○ Formal engagement with and active participation in enhancement projects related to the Business and Tourism Forum South of Johannesburg (SOJO) ○ Annual material issues engagement via the Sustainability Committee.
○ Business performance and return on investment/dividends ○ Revenue and operating margin growth ○ Company sustainability and resilience ○ Acquisitions ○ Corporate governance	○ Ensuring long-term sustainability of our supply chain ○ Preferential Procurement Policy Framework Act (PPPFA) targets ○ B-BBEE contributor level ○ Continuation of our Supplier Development Programme ○ Health and safety performance	○ Supporting the communities in which we operate ○ Upliftment through education
○ Prioritisation of growth and expansion through acquisitions, partnerships, and new territories ○ Driving awareness of brand superiority through value-selling using CBS tools ○ Mitigating the impact of legislative and regulatory change ○ Face-to-face meetings held with members of the executive	○ Provision of interest-free supplier development loans ○ Investing time on supplier development and capabilities ○ Regular supplier performance review meetings ○ Audit of potential new suppliers	○ 44 local to site community stakeholder forum meetings attended ○ Contribution and support of two mobile science laboratories benefiting two high schools identified through stakeholder forums ○ Project management support for the building of a Skills Development Centre to benefit the Dipaleseng & Greylingstad communities ○ Golf day for underprivileged golf enthusiasts working as caddies under the theme #Theytoocanswing ○ Provided 172 educational bursaries ○ Repeated sponsorship of Port Elizabeth, Mount Pleasant teacher development programme
○ B-BBEE contributor status ○ Implementing more stringent financial disciplines to working capital ○ Adapting to changing business environment ○ Continued review of growth and expansion through acquisitions, partnerships and new territories	○ Expand supply base to address key customer needs ○ Align supplier base with strategic growth initiatives	○ Pro-active involvement in CSI initiatives to ensure completion and proper implementation ○ Continued support of upliftment through education programmes and support ○ Ongoing involvement and upliftment of local site communities ○ Improve collaboration with communities

MATERIAL ISSUES

Howden's material issues are areas of focus that are strategic to the business and significant to stakeholders, and could have a substantial risk or impact on the Company's ability to be competitive or create value in the short, medium or long term.

Howden's material issues include key risks as they relate to the strategic objectives of the Company as identified by the risk management process.

The risk management process is discussed in further detail on page 14.

PROCESS OF IDENTIFYING MATERIAL ISSUES

STEP 1: IDENTIFY

Identify relevant matters that affect Howden's ability to create value from the board, committees, executive and stakeholder interactions.

STEP 2: EVALUATE

Evaluating magnitude of matter and its effect on the Company's strategy, performance, governance and prospects.

STEP 3: PRIORITISE

Prioritise materiality of relevant matters in accordance with, and by assessing, their magnitude.

STEP 4: REPORT

Consider internal and external perspectives and engage.

MATERIAL ISSUES IDENTIFIED IN 2017

1. HUMAN CAPITAL, INCLUDING HEALTH AND SAFETY
2. TRANSFORMATION AND SOCIETY
3. QUALITY
4. REGULATORY NON-COMPLIANCE
5. UNCERTAIN REGULATORY ENVIRONMENT
6. LOSS OF KEY CUSTOMERS
7. FAILURE TO WIN KEY CONTRACTS
8. DOWNTURN IN CRITICAL INDUSTRY SECTOR
9. ENVIRONMENT
10. INDUSTRIAL ACTION AND SOCIAL UNREST

HUMAN CAPITAL, INCLUDING SKILLS RETENTION

ISSUES

Shortage of skilled workers negatively impacted by the quality of education across maths and science within the country.

Core skills remain with staff that are due to retire.

Low retention rate of younger engineers has a very significant impact on the ability of the business to compete.

The need to attract and retain top talent is intensified by the Company's transformation strategy.

STAKEHOLDERS AFFECTED

Employees

Shareholders

Customers

RISKS

Talent retention
Loss of key skills

Poor quality service delivery

Project delays

Contractual penalties

Warranty claims

Poor succession planning

Failure to recruit suitable candidates due to scarce skills in South Africa

MITIGATIONS AND AREAS OF FOCUS

Succession planning of senior management.

Caring for the physical and emotional well-being of employees.

Valuing, embracing and celebrating diversity.

Providing development and training opportunities for all to further their careers.

Hiring the best talent available in the market.

Identify and develop high-potential/performing employees.

Ensure identified talent is retained.

Develop and enrich human capital, continually considering both the employee and the Company's needs.

Create a common language about our people's capability and potential to ensure consistent and focused skills building and career progression.

Honouring commitments and demonstrating honesty, integrity and fairness at all times.

Achieving "Top Employer" certification annually.

The Company seeks to reward employees for their personal contribution and hence incentive bonuses are given to deserving employees.

All employees have the right to freedom of association and are accordingly entitled to belong to a union.

Market-related benefits including the implementation of a remuneration philosophy based on ability and competence, and is market-related regardless of race or gender.

HEALTH AND SAFETY

ISSUES

Health and safety performance of the Company is a priority. Focusing on and maintaining a strong health and safety performance ensures the well being of associates and sub-contracts, and protects Howden's reputation and its sustainability.

STAKEHOLDERS AFFECTED

Employees

Shareholders

Customers

Suppliers

RISKS

Project delays

Reputational damage

Criminal prosecution

Contractual penalties

Impact on associates' ability to provide for their families

MITIGATIONS AND AREAS OF FOCUS

The Company has implemented local and global health and safety initiatives across the business including:

(a) Du Pont Safety Perception Survey conducted for all three sites, Booysens/Donkin and Middelburg around June/July 2017.

(b) ISO 14001 Bridging Course completed by all senior management and all EHS personnel through Green Gain Consulting.

Maintain hearing loss prevention programme, including the distribution of special hearing-protection equipment and moulded ear plugs aiming to eliminate hearing-loss cases.

Promote HIV and health awareness and by the provision of free voluntary HIV and medical fitness testing. Howden encourages its associates to know their health status.

Provision of quality healthcare to all associates through Company-managed facilities, third-party service providers and medical aid contributions.

Availability of two medical centres, in Johannesburg and Port Elizabeth, provide an effective range of medical support services during working hours, including occupational and primary healthcare to onsite employees.

Howden facilitates 24-hour access to casualty departments at nominated hospitals.

The Company added socks to the standard PPE provision for employees exposed to a cold environment.

Endeavour to limit and lower noise to tolerable levels by installing appropriate equipment and providing advanced hearing-protection devices. Product design, welding methods and welding preparation processes have been adapted to reduce grinding noise.

Howden is investigating the noise generated from the testing of certain fan ranges and is looking to implement measures to reduce the noise generated from the testing of these fans during 2018.

MATERIAL ISSUES CONTINUED

TRANSFORMATION AND SOCIETY

ISSUES

Howden remains committed to the upliftment and recruitment of historically disadvantaged South Africans (HDSAs) and communities, in line with its broader transformation objective.

There has been substantial progress in transformation within Howden at managerial level; this remains a challenge, especially given the scarcity of skills and difficulty of attracting women to this industry.

High levels of unemployment and poor service delivery affect rural communities across South Africa as well as those neighbouring customer sites resulting in expectations of opportunities of employment, socio-economic development and supply chain involvement.

STAKEHOLDERS AFFECTED

Customers
Communities
Shareholders
Suppliers

RISKS

Lowering of B-BBEE Contributor status
Disqualification from tendering on public sector work
Loss of key customers
Poor community perception
Failure to meet agreed employment equity targets
Sanctions from the Department of Labour
Increased costs and overheads
Conflict with nearby communities

MITIGATIONS AND AREAS OF FOCUS

Successfully identifying, appointing, mentoring and training historically disadvantaged talent for top management positions.

Addressing senior management representation through the talent management strategy.

Every effort is made to accommodate disabled people in productive employment activities.

Focus on growing small and medium black-owned businesses.

Howden continues to recruit, train and develop on merit of performance, the demographic population representation in employment equity.

Contributing to society through a corporate social investment programme focused on the education of the underprivileged and help for the destitute.

Establishing sustainable suppliers independent to Howden by providing interest and security free loans to qualifying suppliers and enterprises, as well as making advance payments to assist them with cash flow.

Placing greater importance on procuring from B-BBEE accredited suppliers. Supply chain managers are appraised on their consistent purchasing levels from empowered companies to ensure Howden promotes and stimulates small businesses.

The Company continues to exert pressure on its suppliers to improve their own B-BBEE credentials.

QUALITY

ISSUES

Since the launch of ISO 9001 in 1987, all Howden business units have retained this certification. The Company has adopted the principle of total quality management, which includes domains such as sales and marketing, concept and detail design, planning, purchasing, production, customer service, safety, people and asset management. To maintain a sustainable business, Howden has to constantly improve the status quo in terms of quality.

STAKEHOLDERS AFFECTED

Customers
Shareholders
Suppliers
Communities

RISKS

Loss of key contracts
Loss of key customers
Reputational damage
Environmental harm
Warranty claims
Regulatory breaches
Performance damages

MITIGATIONS AND AREAS OF FOCUS

Successfully completed the ISO 3834 audit process.

Implementation of the National Cleaner Production Centre South Africa (NCPC-SA) programme to promote the implementation of resource efficiency and cleaner production methodologies to assist industry to lower costs through reduced energy, water and materials usage, and waste management.

Integrating customer service excellence into the Company's operating systems more than a decade ago.

Listening to and understanding Howden's customers' needs, the business is able to tailor its products to continuously enhance the quality and standards of all outputs.

Internally measuring customer satisfaction, ranging from quantifying numbers of customer complaints to formal face-to-face discussions and online surveys. Quality compliance is measured continuously in business units by internal non-conformance reporting and customer feedback.

By sharing information and benchmarking successes, the Company is able to execute both breakthrough and continuous improvement programmes across all business units.

Howden lives by its core values of high standards and customer service excellence, and strives to improve on levels of performance, making Howden a better place, fostering a culture of mutual respect among staff, customers and all stakeholders.

Several annual awards for exceptional quality performance awarded to individuals, teams and suppliers.

Quality management is one of our fundamental practices and will remain a top priority to combat potential substitution with cheaper, inferior imports.

UNCERTAIN REGULATORY ENVIRONMENT

ISSUES

The introduction and amendment of legislation and regulations, such as the Preferential Procurement Policy Framework Act (PPPFA) and its regulations, created clear challenges in meeting the pre-qualification criteria and sub-contracting requirements contained therein, as well as around the irregular application of the PPPFA.

STAKEHOLDERS AFFECTED

Customers
Shareholders
Employees
Suppliers

RISKS

Inability to tender on public sector contracts
Severe financial penalties
Reputational damage
De-registration from government/industry bodies
Breach of contract

MITIGATIONS AND AREAS OF FOCUS

The Company carefully tracks the introduction of new or amended legislation.

Formation of a PPPFA Implementation team to manage and mitigate the risks and uncertainty around the PPPFA.

Identifying and developing black owned EME and QSE suppliers to partner with Howden.

Investigating and understanding the challenges around local in-house manufacture portion of the Company's contract values.

Regular reporting of legislative and regulatory changes to the board, committees and executive management.

Continued engagements with government departments on policy issues and challenges.

Opportunities exist to form strong relationships with black-owned EME and QSEs, in turn strengthening Howden's B-BBEE Contributor status.

LOSS OF KEY CUSTOMERS

ISSUES

A business unit may lose a major customer. This could have a significant impact on the Company and would result in a significant reduction in turnover and profits.

STAKEHOLDERS AFFECTED

Shareholders
Employees
Suppliers

RISKS

Loss of revenue
Talent retention

MITIGATIONS AND AREAS OF FOCUS

Ongoing active marketing and maintaining a focus on providing technical solutions to meet customers' needs.

Maintain a highly-skilled complement of core staff.

Closely monitor customer performance KPIs.

Continue enhanced service organisation to improve service and quality levels.

Communicate regularly with all levels within key customers.

Immediately address any customer complaints.

Implement effective social, localisation and development programmes.

Align with customer needs and strategies.

Manage customer expectations.

Diversification of revenue streams.

MATERIAL ISSUES CONTINUED

FAILURE TO WIN KEY CONTRACTS

ISSUES

Failure to win a substantial portion of upcoming contracts would decrease potential turnover and profit and could have the effect of establishing long-term competitors.

STAKEHOLDERS AFFECTED

Shareholders
Employees
Suppliers

RISKS

Loss of revenue
Talent retention

MITIGATIONS AND AREAS OF FOCUS

Maintaining close working relationships with major customers.

Strive to engage early in the customer process i.e. from the feasibility stage of projects.

Constantly maintaining high skill levels throughout the business, focusing on high levels of customer service, retaining brand strength and managing a competitive supply chain.

Closely monitoring any competitor threats.

DOWNTURN IN CRITICAL INDUSTRY SECTOR

ISSUES

Macro-economic factors, as well as political and economic decisions can cause reduction in capital investments across the local industries, reducing opportunities to supply new equipment.

STAKEHOLDERS AFFECTED

Shareholders
Employees
Suppliers
Communities

RISKS

Deferred payments
Reduced bookings
Project suspensions

MITIGATIONS AND AREAS OF FOCUS

Maintain a low overhead cost base of key skills, utilising resources from external contractors to manage peaks in workload.

Reduce reliance on local markets through expansion into the rest of Africa.

Robust debtors collection process.

Strong communication with customers.

ENVIRONMENT

ISSUES

As a result of a local and worldwide increase in environmental awareness, South Africa has a heavily regulated environmental landscape. Howden, together with customers and suppliers, are challenged with reducing their environmental impact, including the reduction of harmful emissions, consumption of natural resources and power usage.

STAKEHOLDERS AFFECTED

Communities
Shareholders
Customers
Suppliers

RISKS

Disinvestment of customers from the country
Loss of revenue
Penalties
Demanding performance criteria
Growth opportunities and demand for Howden's products

MITIGATIONS AND AREAS OF FOCUS

Howden's manufacturing processes are relatively "clean" compared to harsher industrial environments elsewhere.

Continuously identify negative environmental impact aspects of Howden's products and operations, and set reduction targets to those impacts.

Tracking and implementing environmental roadmaps and targets.

Consideration of government guidelines and global concerns on climate change.

Reduction of direct and indirect energy use and improved recycling practices as the most relevant performance indicators for the Company.

Proactive efforts to reduce the use of non-renewable resources.

Deploying products and process systems that support customers' efforts to reduce carbon footprints and air pollution.

Prioritisation of compliance with environmental, legislative and regulatory requirements.

The Company strives to reduce its environmental impact and offers products and services with the best long-term value across a wide range of renewable sector applications, ensuring consistent, safe and efficient site output.

LEGISLATIVE AND REGULATORY NON-COMPLIANCE

ISSUES

The industries within which the business operates are highly regulated and Howden is subject to numerous legislative and regulatory requirements across various territories.

Ethical breaches and legislative non-compliance could adversely affect the business.

STAKEHOLDERS AFFECTED

Shareholders
Customers
Employees
Suppliers

RISKS

Reputational harm
Penalties
Loss of revenue
Criminal liability
Breach of contract
De-registration from government/industry bodies

MITIGATIONS AND AREAS OF FOCUS

Howden carefully tracks the introduction of new or amended legislation.

Ensuring all management and employees in areas involving sales, procurement and suppliers, and customer service are adequately trained and educated in the principles of anti-bribery and corruption.

Policies and procedures are in place.

Regular training of associates is carried out across the business.

Regular audits of existing controls are carried out.

Code of conduct is subscribed to by all employees and suppliers.

Maintenance of legislative and regulatory risk matrix.

The Company makes available to associates and third parties a 24/7 anonymous tip-off hotline managed by Deloitte.

INDUSTRIAL ACTION AND SOCIAL UNREST

ISSUES

The labour market in South Africa is heavily unionised and characterised by industrial action and social unrest. Industrial action can affect the business as well as suppliers and customers with a high potential of negatively affecting productivity, on-time delivery and the way Howden does business.

STAKEHOLDERS AFFECTED

Customers
Shareholders
Employees
Suppliers

RISKS

Industrial action
Project delays
Reduced productivity
Contractual penalties
Poor investor perception

MITIGATIONS AND AREAS OF FOCUS

In the absence of industrial action, the Metals and Engineering Industries Bargaining Council's main agreement was renegotiated in 2017 for a further period of three years to July 2020.

Established an industrial relations forum comprising management and shop stewards meeting regularly to discuss matters of concern.

A committee manages business continuity and sets out contingency plans to mitigate potential disruptive events, including supply disruption.

Proactive engagement with unions and bargaining councils.

Access to the wider Howden Global Supply Chain in the event critical deliveries are at risk through local supply chain disruption.

The impact of this material issue remains moderate and will be escalated when the main agreement comes up for negotiation.

CAPITALS IN FOCUS

HUMAN CAPITAL

OUR PERFORMANCE IN 2017

- **R470 000 000** paid in salaries and wages (2016: R483 000 000)
- Re-certified by Top Employers Institute South Africa
- **901 665** hours worked in workshops (2016: 749 622)
- **64%** HDSA employees: (2016: 62%)
- **39** new hires: (2016: 72)
- **9%** staff turnover rate (2016: 17%)
- **21%** female permanent employees (2016: 24%)
- **28** employee resignations (2016: 43)
- **Zero** employees retrenched (2016: 13)
- **23%** unionised employees: (2016: 22%)
- **2** formal grievances filed (2016: zero)
- **Zero** incidents of discrimination: (2016: zero)
- **2.4%** absentee rate (2016: 2.0%)
- **244** medical fitness tests carried out (2016: 360)
- **41** flu vaccinations carried out (2016: 114)
- **113** HIV/Aids tests carried out (2016: 196)
- **Zero** cases of hearing loss (2016: zero)
- **Zero** fatalities (2016: 1)
- **2** lost-time injuries (2016: 6)
- **403 900** lost time accident-free hours (2016: 431 589)

ACTIONS FOR ENHANCEMENT

Implementing and monitoring EHS plan to establish objectives and targets

Provision and enforcement of the use of appropriate PPE

Simplifying our risk methodology

Working towards having an integrated EHS Management System for all Howden sites

Safety awareness training

Monthly housekeeping competitions promoting safety awareness and compliance

All incidents methodically examined for root cause and effect, and scientifically addressed to prevent recurrence

Maintain hearing loss prevention programme

Promote HIV/Aids awareness; encourage people to know their status through annual wellness day held on World Aids Day

“Ask Nelson” employee wellness programme in place

Investigating noise generated from testing certain fan ranges

Hiring the best talent available in the market

Identifying and developing high potential and/or performing employees

Ensuring that identified talent is retained within the Company

Developing and enriching human capital on an ongoing basis, considering both the employee and the Company’s needs

SOCIAL AND RELATIONSHIP CAPITAL

OUR PERFORMANCE IN 2017

- B-BBEE **Level 4 Contributor** status under new codes: 85.64 points (2016: Level 4: 80.41 points)
- **R921 000 000** preferential procurement spend (2016: 529 000 000)
- **875** B-BBEE certified vendors (2016: 665)
- **98.8%** skills development score under the B-BBEE Amended Codes (2016: 93.8%)
- **R1 700 000** socio-economic development spend (2016: R2 000 000)
- **R50 000** in ad hoc donations (2016: R50 000)
- **44** stakeholder forum meetings attended
- Opportunities created for employment and transfer of skills to local communities
- Building professional relationships with local business and communities
- Harmonious working environment developing with local communities

ACTIONS FOR ENHANCEMENT

Provision of interest and security free supplier development and enterprise development loans for black owned suppliers and enterprises

Contribution to society through a corporate social investment programme focused on the education of the underprivileged and help for the destitute

Annual contribution to Mount Pleasant Primary School to be utilised towards classroom assistants and student teachers

Implementing mobile science labs to benefit schools near Lethabo and Matimba Power

Further interaction with local to site communities

Participation in community stakeholder forums near customer sites

Sourcing local goods and services near customer sites

Drive for localisation of social investment spend

Contribution of project management towards a skills development centre to benefit of Dipaleseng and Greylingstad communities

INTELLECTUAL CAPITAL

OUR PERFORMANCE IN 2017

- **R6 552 889** invested in skills development (2016: R3 914 000)
- **170** accessible patents
- **R1 000 000** spent on bursaries: (2016: R900 000)
- **194** employees received training (2016: 186)
- **78** hours training on average per employee (2016: 82)
- **7** mature individuals committed to S28 training (2016: 0)
- **24** apprentices (2016: 31)
- Implemented efficiencies in processes from applying CBS roadmaps
- Applied CBS tools to improve manufacturing process and OTD

ACTIONS FOR ENHANCEMENT

Nurturing the best engineering talent available in the market with application knowledge

Extend CBS leadership and skills across the business

Use CBS tools and roadmaps to improve customer service levels

Ensuring consistent and focused skills building and career progression within Howden

Ensuring that our talented technical teams continue to grow their knowledge and share with their colleagues to strengthen application expertise of the Group

Creating a common language regarding the capability and potential of our people

Sponsoring a full time Section 28 artisan qualification for mature non-Howden sub-contractors with significant, practical boiler-making and welding experience

Implementing the apprenticeship programme in conjunction with MERSETA to address sectoral skills

Continued support for education as key to the sustainable future of South Africa

NATURAL CAPITAL

OUR PERFORMANCE IN 2017

- **100%** of categorised scrap steel recycled
- **25.26** tonnes of hazardous waste removed from site (2016: 25.84)
- **27.76** tonnes of non-hazardous waste removed from site (2016: 37.86)
- **11.91** tonnes of recycled waste excluding steel (2016: 9.87)
- **0.010** litres diesel/fuel consumed per man hours (2016: 0.010)

ACTIONS FOR ENHANCEMENT

Recertifying to ISO 14001:2015 standard from ISO 14001:2004

Engage the CSIR to undertake resource efficiency and cleaner production assessments on manufacturing/process facilities to identify solutions to further reduce the consumption of energy, water and improve waste management

Ongoing recycling of all categorised scrap steel

Removing fibreglass as part of mix-load hazardous waste

Appropriate disposal of all hazardous waste

Investigating the potential of recycling shot blast grit, and continuing the process of sourcing a requisite service provider

Raise awareness on waste separation to decrease waste going into landfill and proper waste separation

Incorporating environmental awareness into the new employee induction process

Installing energy-saving light bulbs wherever possible to save on utility cost and resources

Ensuring that air-conditioning systems and lights are switched off after hours in our offices

BOARD OF DIRECTORS

MORONGWE MALEBYE
(46)

Lead independent non-executive director

MSc (Ind engineering), MBA and BSc (Mech Engineering)

Appointment date: 7 November 2007

Board Committee memberships: ARC and RENSEC (Chair)

Morongwe has worked in senior and executive positions at blue chip engineering companies such as Sasol, TFR-Spoornet, Armscor, and subsidiaries of international and listed companies such as Babcock Africa and PB Africa. Her expertise is in the utilities sector and manufacturing. She is a valuable contributor to growth strategy, stakeholder engagement and asset management.

Currently, she is also a director and co-founder of Ditiropele, an engineering company and CEO of Dickinsons Industrial Services.

SULEMAN BADAT
(55)

Independent non-executive director

CA(SA)

Appointment date: 1 December 2017

Board Committee memberships: ARC (Chair) and RENSEC

Suleman previously served as an independent non-executive director for the company between 2011 and 2014. He is an independent consultant, specialising in corporate governance, internal audit and risk management advisory services. He was previously a member of the Executive Committee at the Auditor General of South Africa, chief risk officer at Sasol Limited and a partner at Arthur Andersen.

HUMPHREY MATHE
(67)

Independent non-executive director

BSc (Hons), MSc (Mineral Exploration), PhD (Applied Geology)

Appointment date: 1 July 2012

Board Committee memberships: ARC and RENSEC

Humphrey has in excess of 40 years' experience in the mining industry and is the CEO of Tranter Resources. Previously he was the CEO of Scinta South Africa (Pty) Limited, an executive general manager at Exxaro Resources Limited. He serves on the Investment Committee of the Acrux Resources (Pty) Limited and is a Fellow of the Geological Society of South Africa and registered with the South African Council for Natural Scientific Professions (SACNASP) as a professional scientist.

He also sits on the boards of Scinta South Africa (Pty) Limited (Non-Executive Chairman), Tranter Group of companies, Talent[10] Holdings, Council for Geoscience (CGS), Wescoal Holdings Limited, Handa Copper Corporation.

IAN BRANDER
(56)

Non-executive Chairman

BSc (Mech Engineering) (Hons), D Eng (Honorary Degree)

Appointment date: 26 July 2011

Board Committee memberships: ARC and RENSEC

Ian joined Howden in 1983 and has undertaken a diverse range of roles and projects allowing him to be involved in a wide range of technologies, from fans to wind turbines to tunnel boring machines, robotics and compressors, progressing from design and development to engineering management, project management and general management. He was appointed Howden global technology director in 2006, operations director in 2008 and, in August 2011, he became Howden Global CEO.

He also sits on (among others) the boards of Howden Group South Africa Limited, James Howden and Godfrey Overseas Limited, Howden Holdings Limited (UK), Howden Group Limited (UK).

JAMES BROWN
(58)

Non-executive director
CA(UK)

Appointment date:
3 March 2005

Board Committee memberships:
ARC and RENSEC

James has had various senior financial roles across his 28-year career in Howden. Since 2003, he has been Chief Financial Officer of Howden Global. He is responsible for IT and business systems development in Howden, financial control and overall financial performance of the business.

He also sits on (among others) the boards of Howden Group South Africa Limited, Howden UK Limited, Howden Group Limited (UK) and Howden Holdings Limited.

WILLIAM THOMSON
(56)

Chief Executive Officer (CEO)
BSc (Mech Engineering)

Appointment date:
1 February 2016

William was appointed initially as the chief operating officer from 1 February 2016, for a short transition period, and from June 2016 was appointed as the Chief Executive Officer of Howden Africa Holdings Limited.

He has significant experience running a global heavy fan and heater business and has extensive end-to-end knowledge of procurement, manufacturing and service processes of the Howden core range fans & heaters. He has significant product knowledge and its application in the power and mining industries.

MARINELLA VIGOUROUX
(36)

Chief Financial Officer (CFO)
CA(SA)

Appointment date:
8 December 2016

Marinella moved to the Chief Financial Officer role from a financial director role within the Fans and Heat Exchangers division of Howden. She brings with her, extensive knowledge of the construction and engineering industry and a key operational understanding of Howden business.

She has specific expertise in financial control, systems implementation, strategic management and financial management and reporting.

She does not sit on any other boards.

EXECUTIVE MANAGEMENT (EXCO)

CLINTON SWAFFIELD
(54)

National diplomas in Mechanical Engineering and Business Management (Unisa)

With the Group since 1980

Managing director of Howden Power, an operating division of Howden Africa Proprietary Limited, director of James Howden Holdings Proprietary Limited, Executive Committee member and Exco Risk Committee member.

GEOFFREY CHINGWARU
(48)

BPhil Hons (Marketing), National Diploma in Electrical Engineering, MBA General Management (Major: Marketing and Company Strategy) (University of the Free State), Advanced Business Communication (Unisa), Advanced Business-to-business Marketing (Unisa)

With the Group since 2005

Corporate affairs and Group marketing director. Director of James Howden Holdings Proprietary Limited, Howden Africa Proprietary Limited and Howden Donkin Proprietary Limited, Executive Committee member and Exco Risk Committee member.

CRAIG MASSON
(35)

Admitted Attorney, BA (Law), LLB (Hons), H Dip (Corporate Law)

With the Group since 2011

Group Company secretary and legal advisor, Howden Africa Proprietary Limited Company Secretary, James Howden Holdings Proprietary Limited Company Secretary, Howden Donkin Proprietary Limited Company Secretary, Executive Committee member, Exco Risk Committee member, Sustainability Committee member, Governance Committee member.

KUDZAI NYANGONI
(47)

BSc (Hons) Mechanical Engineering, MBA (Finance), Graduate diploma in Marketing Management (IMM), PrEng — registered professional engineer with Engineering Council of South Africa (ECSA), Former President of the South African Institution of Mechanical Engineering (SAIMechE) and elected Fellow of SAIMechE, past member of the Council of ECSA.

With the Group since 2009

Managing director of James Howden Holdings Proprietary Limited, leading both Howden Projects and Howden Fan Equipment divisions, Executive Committee member, Risk Committee member and director of Howden Africa Proprietary Limited.

ANCHERIEN DU PLESSIS
(53)

BCom (Human Resources Management) (University of Port Elizabeth)

With the Group since 1995

Group human resources director. Director of Howden Donkin Proprietary Limited. Executive Committee member, Exco Risk Committee member and Sustainability Committee member.

FIVE-YEAR GROUP FINANCIAL SUMMARY

for the year ended 31 December 2017

SUMMARISED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

R'000	**2017**	2016	2015	2014	2013
Revenue	**1 742 950**	1 604 535	1 483 276	1 588 022	1 682 832
Operating profit	**316 159**	247 611	261 997	326 847	448 885
Net finance income	**77 349**	55 494	40 483	23 938	12 923
Profit before income tax	**393 508**	303 105	302 480	350 785	461 808
Income tax expense	**(113 252)**	(84 684)	(86 927)	(81 596)	(149 811)
Profit for the year	**280 256**	218 421	215 553	269 189	311 997
Other comprehensive income:					
Other comprehensive (loss)/income for the year, net of tax	**(2 008)**	(2 716)	1 910	(7 520)	(13 736)
Total comprehensive income for the year attributable to equity holders of the Company	**278 248**	215 705	217 463	261 669	298 261
Earnings per share (cents)	**426.38**	332.31	327.94	409.54	474.67
Dividends per share:					
— dividend paid (cents)	**—**	—	—	—	30
— special dividend paid (cents)	**—**	—	—	—	—
— interim dividend paid (cents)	**—**	—	—	—	30
Number of shares ('000)					
In issue	**65 729**	65 729	65 729	65 729	65 729
Weighted average	**65 729**	65 729	65 729	65 729	65 729

SUMMARISED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

R'000	**2017**	2016	2015	2014	2013
ASSETS					
Non-current assets	**178 403**	185 931	196 763	201 818	207 432
Current assets	**1 952 121**	1 675 109	1 387 607	1 227 645	1 098 945
Inventories	**337 065**	332 166	235 163	225 405	330 335
Receivables and prepayments	**438 635**	433 602	422 254	374 552	422 566
Cash and cash equivalents	**1 176 421**	909 341	730 190	627 688	346 044
Total assets	**2 130 524**	1 861 040	1 584 370	1 429 463	1 306 377
EQUITY					
Capital and reserves					
Shareholders' funds	**1 533 160**	1 254 912	1 039 207	821 744	560 075
LIABILITIES					
Non-current liabilities	**78 463**	102 066	108 933	118 409	110 245
Current liabilities	**518 901**	504 062	436 230	489 310	636 057
Total equity and liabilities	**2 130 524**	1 861 040	1 584 370	1 429 463	1 306 377

CHAIRMAN'S STATEMENT

Order intake

R1 719.7m

+9.3% (2016: R1 572.7m)

Operating profit

R316.2m

+27.7% (2016: R247.6m)

Health and safety

31% reduction in TRIR

Amended B-BBEE Codes

Level 4 Contributor

Maintained

I am pleased to report that Howden generated an excellent set of results in 2017, although market headwinds persist and the general economic environment remains challenging.

During 2017 the Environmental Control division returned a solid performance although other parts of the business faced challenging economic conditions, resulting in weaker demand in a number of key markets and margin pressures. World-wide mineral price levels did improve towards the end of the year, supporting capital expenditure in the mining industries, particularly in neighbouring countries.

New build opportunities remain subdued in the country across mining, power and industrial, although stronger opportunities exist in the pipeline of environmental control projects.

Management has continued with the strategy of increasing export sales, diversification from traditional power and a strong focus on aftermarket growth.

The newly-formed Fabrication business completed its first full year of trading and we remain confident on the growth of this business.

Overall the 2017 performance included a solid operating profit performance of R316.2 million, with continued focus on working capital, ensuring that the Company ended the year with a strong balance sheet, remaining well positioned to take up any opportunities that present themselves in the future.

The Company achieved B-BBEE Level 4 Contributor certification with plans to improve through a structured transformation plan.

Howden's accreditation as a Top Employer in South Africa supports our desire to attract the best talent, develop our people and encourage innovation.

GENERAL REVIEW

Total revenue in 2017 increased by 8.6% to R1 743.0 million compared to R1 604.5 million in 2016, with operating profit increasing 27.7% to R316.2 million (2016: R247.6 million).

Aftermarket, growth across all industries continues to remain a strategic focus both domestically and within the wider African continent.

The CEO's review covers operational aspects in more detail, commencing on page 34.

B-BBEE

The Group recognises the need to continue to drive its broad-based black economic empowerment (B-BBEE) status, and management, skills development, enterprise and supplier development and socio-economic development have been the focus areas in the past year. The Group has been independently verified as a Level 4 value-adding Contributor, under the Amended Codes. The Group is committed to further continuous B-BBEE transformation.

RISK MANAGEMENT

It is the responsibility of the Audit and Risk Committee to assist the board in the governance of risk and to design, implement and monitor a risk management plan. The committee has focused on raising the main risk exposures facing the Group and has implemented systems to ensure continuous risk monitoring and, where possible, exploitation of opportunities.

BOARD OF DIRECTORS

The business welcomes back Suleman Badat, who returns to fill the vacancy left as a result of the resignation of Mr Patel. Mr Badat previously served as the chairperson of the Audit Committee and Independent non-executive director for the Company from 2011 until 2014, when he resigned to join the Auditor General of South Africa.

In line with best governance practices, an evaluation of the board and subcommittees was completed in 2017. This evaluation and recommendations for improvements have been reviewed and considered by the board.

DIVIDEND

The directors have resolved not to declare a dividend.

MANAGEMENT AND STAFF

I conclude by thanking management and all associates for their excellent contributions throughout the year. I also offer thanks to the board and committee members, for their guidance, support and commitment throughout the year.

Ian Brander
Non-executive Chairman

28 March 2018

CHIEF EXECUTIVE OFFICER'S REVIEW

Revenue

R1 743.0m

+8.6% (2016: R1 604.5m)

Safety

Main facility surpassed 3.5m hours with

Zero recordable incidents

Amended B-BBEE Codes

Level 4 Contributor

Maintained

Re-certified

ISO 14001

OHSAS 18001

ISO 9001

William Thomson
Chief Executive Officer

INTRODUCTION

The Fans and Heat Exchangers division's business activities in the local mining and power generation industries were relatively flat during the year under review; this was not unexpected given the overall low-GDP growth environment.

The Environmental Control division delivered a solid performance, with legacy project issues from the prior year closed out. Although revenue and profit increased, and the pipeline is strong, the lower rate of order intake reflected the general uncertainty on spending.

ESAB, our Fabrication Technology division, ended its first full year of trading short of expectations. However, I am confident our new management team will grow this division through greater market penetration.

It is encouraging to see some positive movement within the mining sector outside of South Africa. This marks a change in as much as capital expenditure in the mining industry, which has been put on hold for some years now, is slowly being released into the market.

ACHIEVEMENTS

Safety

I am pleased to report that our safety performance showed significant improvement on the prior year, with a 31% reduction in our annual Total Recordable Incident Rate (TRIR).

Our main manufacturing facility surpassed 3.5 million hours with zero recordable incidents

These results are a step in the right direction and reflect the positive efforts from associates at all levels in the business, contributing to the drive for a stronger safety culture across our business.

We also engaged with DuPont as part of a wider Howden Global project. DuPont is a recognised leader in driving a strong health and safety culture. They provided support on associate surveys and conducted assessments during our activities at customer sites. Workshops were held to develop and strengthen the leadership traits required for sustainable safety improvements.

We will continue with improvement projects in the coming year as we strive towards a zero incident working environment.

Certifications and accreditations

The business was recertified with the International Environmental Standard ISO 14001, the Occupational Health and Safety Standard OHSAS 18001, and the Quality Standard ISO 9001.

The Company maintained a Level 4 Contributor status under the amended B-BBEE Codes of Good Practice (2013) and was again certified as a Top Employer in South Africa.

Employee development and retention

We are seeing the benefits of driving a "one Howden" ethos, encouraging the movement of employees between their traditional departments and other areas of the business. This provides opportunities to learn new skills and to feel more engaged in the wider business. This approach resonates with our management style, and recognising the importance of developing key talent, it is also an employee retention initiative. We are very aware of the value of detailed personal development plans that identify opportunities for both internal and external training as well as an improved understanding of the business.

We truly believe in living our vision and values at Howden — for additional information about our vision and values, please refer to page 5 of this report.

FINANCIAL OVERVIEW

Expansion beyond South African borders helped the overall business, and specifically the Environmental Control division, which delivered a good set of results. Revenue for 2017 increased by 8.6% to R1 743.0 million from R1 604.5 million in 2016. Operating profit (EBIT) increased during the year to R316.2 million — an improvement on the R247.6 million reported in the prior year thanks to improved project execution and growth in the Fabrication Technology division.

Orders increased year-on-year to R1 719.7 million, up 9.3% on the R1 572.7 million reported in 2016. The closing order book for 2017 has remained robust at R711.8 million, although slightly down from R770.4 million in 2016.

Please see the Chief Financial Officer's review commencing on page 56 for further information on Howden's financial performance.

OPERATIONAL PERFORMANCE

During the last year, we served new customers beyond our borders. Growth was achieved organically, by direct end client interaction and by working closely with our sister companies within the Howden Group.

Fans and Heat Exchangers division

The division has three business streams, namely Howden Power, Howden Fan Equipment and Howden Donkin, which together service the needs of a wide range of customers, industries in South Africa and, to a growing extent, in the rest of Africa.

Howden Power is our industry specialist in the design, manufacture, supply, installation and maintenance of boiler fans and rotary regenerative air pre-heaters (air heaters) for the power generation, petrochemical, sugar and paper industries. The business unit provides customers with a quality, proactive and competitive service, while continuously enhancing internal processes to drive improved efficiencies.

Our strategy is focused on growth, by expanding the service and maintenance scope of supply to our key customers in the power generation and petrochemical markets in Africa

As power generation remains a key service industry, we continue to closely monitor the financial standing of our key customers in this sector.

Howden Fan Equipment, incorporating the Safanco and Engart brands designs, manufactures and maintains fans for our mining and industrial clients. We also provide all products, systems and support needed for efficient fan operation. Leading the drive into the rest of Africa, the business unit is our South African market leader in mine ventilation.

Customers in mining saw renewed interest from neighbouring countries due to higher commodity prices during the year, while market conditions in general remained flat and challenging. Customer budgetary constraints aside, Howden pursues opportunities in after-market service, which includes maintenance agreements.

Howden Donkin is an industry specialist, providing standard and pre-engineered fans, blowers and accessories, which we design, manufacture and supply to meet the needs of a broad spectrum of industries and applications. Our strategy includes close alignment of Howden Donkin with Howden Fan Equipment on aftermarket and rest of Africa initiatives.

Environmental Control division

The division offers customers a wide range of products and services that are a requirement on gas cleaning and water treatment applications. The division's capabilities are extensive, providing major turnkey solutions for industrial flue gas conditioning and flue gas desulphurisation. The division also offers medical and industrial waste incineration, industrial furnaces, underground mine cooling, industrial cooling and refrigeration plants, waste water treatment, melt-shop dedusting, and electrical and electronic control systems.

The division offers cost effective solutions and supports customers within the heavy manufacturing industries in meeting their emissions obligations. While market conditions remain challenging, we are buoyed by opportunities for Howden Projects in large-scale environmental control legislation, as companies are under pressure to align with 2020 emissions limits.

We aim to capitalise on opportunities throughout Africa with our significant experience and competencies, while continuing to grow the division's product offering. The ongoing strategy is to leverage off a core set of application engineering skills and a flexible operating model that can quickly expand and retract according to market conditions.

Fabrication Technology division

As reported previously, ESAB was fully integrated into Howden during 2016. ESAB is a world leader in the production of welding and cutting equipment and consumables. Howden is the route to market for ESAB in this region. With a relatively small market share within Africa, we believe the ESAB brand provides Howden with a great growth opportunity. Multiple industries already serviced by Howden also require and use ESAB products. We made a relatively slow start in our first full year of trading, but have gained traction in the marketplace and look forward to year-on-year growth in this part of our business.

STRATEGY

We recognise the significant impact of the coal-fired market on the business. Our strategy remains to diversify from power, expand our offerings in other markets and to expand our business beyond South African borders.

I am also pleased to report that in this reporting year, our Parent Company acquired Siemens Turbomachinery Equipment based in Europe. This new development, together with the earlier acquisition of a ventilation on demand provider will offer additional capabilities and product and service offerings in the waste water and mine ventilation markets.

KEY FACTORS AFFECTING PERFORMANCE

The strong financial results are underpinned by the efforts of a strong management team and a dedicated workforce. Our continuous drive for strong cost controls and cash collections has led to improved liquidity in the Company.

At Howden, our main strength is in our application engineering.

We use our expertise to understand our customers' needs and to offer the best solutions early in the project development phase

Whether needs relate to environmental cleaning, water treatment, mine ventilation or improved plant efficiency, we at Howden can provide customers with advantageous solutions to meet their specific needs.

We are engaged in the process from concept to final plant operation. Our teams have competencies enabling Howden to address design, supply, installation and commissioning needs of the customer. We always strive to engage and collaborate with customers to understand their industry's changes and challenges, and to help them choose the most appropriate solution for the best long term results.

We understand that strong contract management and excellent customer service builds customer confidence. Our Colfax Business System (CBS) toolkit and daily activities focus our energies on continuously improving the processes that enhance customer experience. The positive impact of this is evident in our Environmental Control division's improved performance, as discussed elsewhere in my review.

We differentiate from our competitors through a superior portfolio of products and application knowledge — expertise acquired over many years serving the ever-changing needs of multiple industries. With this understanding, we deliver products that offer high efficiency, and lower life-time cost. The same levels of service and expertise applies to maintenance projects and after-market service – we engage with customers to find the best solution on an individual project basis. Our capabilities grow with our customers as their industries and needs change over time.

We embrace CBS, which articulates our culture as a market leader — a world-class engineering company that places customer needs at the centre of everything we do through solutions and innovation. CBS is described in detail on page 9 of this report.

COMMUNITY ENGAGEMENT

We have already made proactive steps to engage with selected communities during the year. Our aim is to build a foundation of trust and to gain a better understanding of the expectations of communities close to our main customer sites. Some communities are becoming desperate as living conditions deteriorate within a low-growth economy and rising unemployment. This brings additional challenges and makes it essential to work closely with our customers and suppliers.

To address the change in the local business environment, we proactively set up a dedicated team to engage with community-based stakeholders. Some opportunities for business engagement and employment do exist, whereby our supply chain team seek to develop potential business partners within the community. This is of mutual benefit as entrepreneurs and individual business can add value to our business while gaining valuable skills and training for use on delivering projects to the ultimate customers.

Development of community-based suppliers includes quality assessments to ensure that high standards of products and services match our brand promise. Potential suppliers sourced from communities may also require financial funding assistance and a period of business incubation. This forms an integral part of our business plans to support local growth.

It is however not always feasible or even possible to meet the growing expectations of all communities, within the scope of Howden's business activities or that of our customers. It remains critical for our products and services to always be of the highest quality, and there can be no compromise on delivery.

We are founding members of SOJO – the business forum of South Johannesburg and surrounding areas. Every year, we formally engage with the forum, and actively participate in environmental enhancement projects initiated by SOJO.

At the end of 2017, we launched a much needed community-based maths, science and technology initiative to develop community schools, as well as future engineers

Our full stakeholder engagement programme for the year is discussed in detail, commencing on page 17 of this report.

CHIEF EXECUTIVE OFFICER'S REVIEW CONTINUED

RISK MANAGEMENT

Strong risk management is a strategic imperative in our business. Our risk framework guides and assists the management of risk, assessing the risks we face, rating their likelihood of occurrence together with the consequences of each risk, and the necessary mitigations. A report commencing on page 20 sets out Howden's main risks.

Risks rated as high or major are reviewed at quarterly meetings of the Exco Risk Committee. These are presented to the Audit and Risk Committee, and where appropriate escalated to the main board.

As referenced in the community engagement section above, community activism is an emerging risk facing Howden and the country at large. To manage and mitigate this risk, we proactively engage with communities to seek solutions to this wider socio-economic challenge.

THE ROLE OF INNOVATION AT HOWDEN

"Leading-edge innovation defines our future" is one of the five Howden values that we live on a daily basis.

Innovation is the lifeblood of Howden and drives application engineering in our business, as we constantly develop solutions for our customers' unique and changing needs

Our customer-oriented approach creates value through opportunities to improve on efficiencies and costs, and deliver engineering solutions that give our customers an advantage.

We recognise the need for excellent talent management, as we know our motivated and talented workforce is one of the keys to uncovering new and improved ways to do business. This links to another of our values "Continuous improvement (Kaizen) is our way of life" in that our employee-driven innovations lead to natural continuous improvement.

We are also innovative in our robust talent development process — we identify our key talent and develop them further by broadening their skills and training across the disciplines within the business. We identify the individual's underlying capabilities and strengths and together we determine how best to grow and develop the individual.

Key talent development leads to better succession planning and safeguards the sustainability of the business in terms of human capital and leadership grown from within.

EQUIPMENT KEY INVESTMENTS

While no major investments were made during the review period, the Group remains liquid and ready to capitalise on strategic opportunities as and when appropriate.

ACQUISITIONS AND DISPOSALS

There were no acquisitions or disposals within the business during the year under review. There have been acquisitions executed by the wider Howden Global business where we engage on developing local routes to market and integration of new technologies. The Howden Global team seek appropriate acquisitions that complement or broaden Howden's scope of capabilities. Our local management defines the acquisition criteria and regularly reviews the pipeline.

CHANGES TO THE BOARD

Mitesh Patel resigned from his position of non-executive director and chairman of the Audit and Risk Committee on 19 October 2017. The board would like to thank him for his valuable contributions to Howden, and for his dedication, commitment and leadership. We wish him well in his future endeavours.

We were pleased to announce the appointment of Suleman Badat, as an independent non-executive director to the board of directors and Audit Committee chairman with effect from 1 December 2017. A chartered accountant, Suleman previously served on the board of Howden and as Audit Committee chairman. We welcome him back and look forward to his value add as a board member.

OUTLOOK AND PROSPECTS

While the local operating environment may remain challenging, we will continue to support the after-market needs of customers, while recognising that their capital expenditure plans could remain subdued in a low-growth economic environment.

Opportunities exist beyond our borders, which includes geographies out of Africa, and we aim to capitalise on certain of these during the year ahead

We at Howden are well equipped to achieve these goals through product diversification, improving and widening our product offering as a Group of companies.

Changes in the regulated world of industry can also drive growth within Howden, through our Environmental Control division. Long-term investors are well aware of the anticipated changes to environmental legislation, which will require that companies become compliant. We are well positioned to leverage off our portfolio of energy saving and emissions products and solutions when customers award capital expenditure to align their businesses with new legislation.

We will apply our experience and our range of products for emission control and water treatment plants, and continue to invest in our range of technology, to respond positively to requests for solutions to customer needs with a specific view of key customers outside of South Africa. While no additional coal fire stations will be built, we will continue in our role of supporting these customers with Howden's brand of quality service and maintenance.

Howden has been involved in waste water treatment for many decades. We have developed blower technology that provides long term confidence to the operator. In an industry where performance and reliability are essential, Howden's expertise and high efficiency compressors, blowers and control systems are value to the market.

The successful commissioning of our first two major Waste Water treatment plant upgrades for the Cape Town and Umngeni municipalities has been followed by various enquiries from other municipalities and independent end users.

The scarcity of fresh water supply in many geographies on the continent will lead governments to afford waste water treatment a reasonable share of their infrastructure project expenditure

APPRECIATION

My sincere gratitude to each and every customer we served in the year – their unwavering support during the past year is much appreciated. On behalf of Howden, I thank all our traditional and emerging suppliers, our service providers and all other stakeholders for the important part they continue to play in the ongoing success of the Company.

To the people in the Howden family — my colleagues in management, all our staff and everyone who has been connected to this business — thanks once again for your dedication, desire and drive to achieve a very good performance in such a challenging operating environment. Thanks also for the part you play in providing a greater focus on safety and to the continued wellbeing of your colleagues.

I would also like to extend my special thanks to all the members of the board and to the members and chairs of the various board committees for providing sound advice and good governance throughout the year.

William Thomson
Chief Executive Officer

28 March 2018

CORPORATE GOVERNANCE REPORT

ETHICAL LEADERSHIP

Howden advocates the King IV Report on Corporate Governance for South Africa 2016 (King IV) which is built on the cornerstone principles of openness, fairness, integrity and accountability which its board and management embrace together with all the requirements for effective corporate governance as set out further in the Listings Requirements of the JSE Limited (JSE Listings Requirements) and the Companies Act.

The role of the board is to exercise effective and ethical leadership and apply sound judgement in directing the Group to achieve its strategic objectives. The board is responsible for the Group and must act in the best interests of all stakeholders. The responsibility for managing the business of the Company rests in the Group Chief Executive Officer, Chief Financial Officer and directors of subsidiary companies (collectively the Executive Committee or Exco), subject to the limitations imposed on them by the Companies Act, JSE Listings Requirements and the Company's memorandum of incorporation.

Governance policies and practices which apply to Howden Africa Holdings Limited apply to all subsidiaries.

BOARD OF DIRECTORS

Composition and structure

The Board follows a unitary board structure and, as at 31 December 2017, it comprised seven directors, three of whom are independent non-executive directors and two are executive directors, namely, the Chief Executive Officer (CEO) and Chief Financial Officer (CFO). Directors are classified as independent, non-executive or executive in accordance with the principles set out in both King IV and JSE Listings Requirements. An annual independence assessment is carried out by the lead independent director (LID) on all independent directors.

The directors as at 31 December 2017 were:

- **IH Brander** Non-executive chairman
- **W Thomson** CEO
- **M Vigouroux** CFO
- **J Brown** Non-executive director
- **M Malebye** Lead independent non-executive director
- **H Mathe** Independent non-executive director
- **S Badat** Independent non-executive director

Mitesh Patel resigned with immediate effect on 19 October 2017 and Suleman Badat was appointed on 1 December 2017 as the new Audit Committee Chairperson as well as an independent non-executive of the board and its committees.

Howden believes that the composition of its board is in line with best practice guidelines and is balanced. The roles of Chairman and CEO are completely separated. The board has a clearly defined division of responsibilities to ensure a balance of power and authorities such that no director has unfettered powers of decision-making.

The directors have a wide set of skills, knowledge, expertise and experience which allows them to exercise independent judgment in board deliberations and decisions. These combined skills and experience benefit the board as a whole in its supervisory role. Biographies of the board are provided on pages 28 to 29 of this integrated annual report.

Diversity, race and gender are considered when appointments are made and the board, through the RENSEC, ensures that it has the right balance of skills, expertise appropriate to the strategic direction of the Company. In this respect, Howden's board has an HDSA representation of 42% and has over 28% female representation for the year under review. The board continuously assesses the diversity of its members and succession requirements. The board is satisfied that its composition reflects the appropriate mix of knowledge, skills, experience, diversity and independence.

There are no prescribed officers as defined by the Minister in terms of the Companies Act, 71 of 2008 (The Companies Act).

Chairman of the board

As mentioned, and in line with best practice, the roles of the Chairman and CEO are separated.

Board members have reviewed the performance of the Chairman of the board and unanimously re-elected Ian Brander as Chairman for 2017. Ian Brander is a non-executive director who carries out his duties and responsibilities independently despite the fact that he is not considered an independent director in terms of King IV. The board believes this appointment is in the best interest of the Company as he brings technical, business and leadership knowledge gained in his 33-year career with Howden Global, and fully understands and appreciates the business strategy of the Company.

Morongwe Malebye was re-elected as the lead independent director for 2017.

Chief Executive Officer

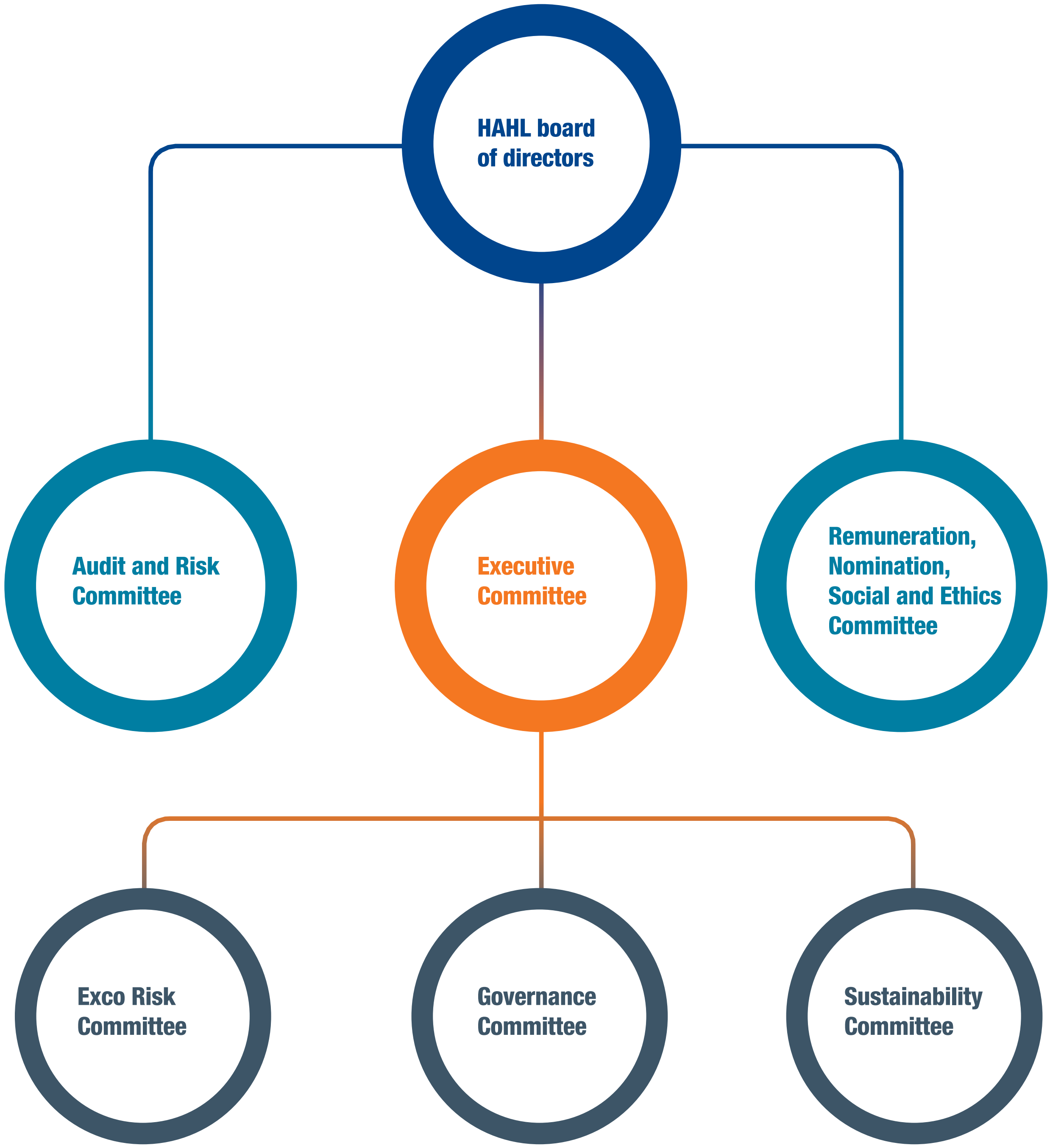
The CEO is responsible and accountable to the board for all Group operations. He has a formal role description (with limits of authority) from the board. To assist in discharging his responsibility, the CEO has six key management personnel who form part of the Executive Management Committee (EXCO). Reference page 30 for biographies of the EXCO.

The CEO's role and responsibilities are set out together with the other directors' responsibilities in the Board's charter. The CEO is responsible for:

- recommending or appointing the executive team and ensuring proper succession planning and performance appraisals
- developing the Company's strategy for consideration and approval by the board
- developing and recommending to the board annual business plans and budgets that support the Company's long-term strategy
- monitoring and reporting to the board the performance of the Company and its conformance with compliance imperatives
- establishing an organisational structure for the Company which is necessary to enable execution of its strategic planning
- setting the tone in providing ethical leadership and creating an ethical environment
- ensuring that the Company complies with all relevant laws and corporate governance principles, and
- ensuring that the company applies all recommended best practices and, if not, that the failure to do so is justifiably explained

Mr Thomson, the current CEO, was appointed as an alternative director and Chief Operations Officer with effect from 01 February 2016 until 31 May 2016. Mr Thomson was thereafter appointed as Chief Executive Officer from 01 June 2016 for a period of two years.

GOVERNANCE STRUCTURE



CORPORATE GOVERNANCE REPORT CONTINUED

His contract is subject to a six months' notice period and in terms of succession planning consideration will be given to both internal and external candidates when the need arises.

Appointment, removal and rotation of directors

The appointment of directors follows a formal and fair process supported by a formal policy including approval by the board upon the recommendations of the RENSEC, which members consists of a majority of independent directors. If a vacancy arises, the RENSEC identifies and nominates suitable candidates. The appointment of a new director is however subject to confirmation by shareholders at the next annual general meeting.

Despite the provisions of any contract, the Company may by ordinary resolution remove any director from office and appoint another person in his/her stead. The Company will at all times comply with section 71 of the Companies Act in this regard.

Two of the directors of the board will retire at the coming annual general meeting and will be eligible for re-election. In accordance with the Company's memorandum of incorporation and King IV, Ian Brander and James Brown will retire by rotation and will stand for re-election by shareholders at the next annual general meeting.

Mrs Vigouroux was elected as Executive Director and Chief Financial Officer at the 2017 AGM held on 1 June 2017.

Mr Badat was appointed as an independent non-executive director and chairperson of the audit and risk committee. He will be elected as such at the 2018 AGM on 1 June 2018 in terms of ordinary resolution 6.

Director development

An induction programme is established for new directors. On appointment to the board, new directors visit the Group's businesses and meet with senior management to facilitate their understanding of the Group structure and fiduciary responsibilities. Professional development programmes are implemented as and when required under the guidance of the Chairman and the Company Secretary. This ensures directors receive regular briefings on changes in risks, laws and the environment.

Board powers and responsibilities

The board gives strategic direction to the Group, retains full and effective control over the Group, and monitors the implementation of the executive plans and strategies by EXCO. The board is ultimately responsible for ensuring that the business is a going concern and is involved in all decisions that are material for this purpose.

The board charter clearly defines the responsibilities of the board and is reviewed and adopted by the board annually. In terms of its charter, the board is generally responsible for:

- Acting as a focal point for, and custodian of corporate governance
- Approving corporate strategy
- Monitoring and assessing performance
- Ensuring that strategy will result in sustainable outcomes
- Ensuring the Company is, and is seen to be, a responsible citizen
- Providing effective leadership on an ethical foundation
- Acting in the best interests of the Company

Non-executive directors complement the skills and experience of executive directors and bring independent judgment to the board's deliberations and decisions through their knowledge and experience.

All directors have unlimited access to the advice and services of the Company Secretary, who is responsible for ensuring that board processes are followed.

All directors may seek independent professional advice, concerning the affairs of the Group at the Group's expense, after obtaining approval in line with the process set out in the board charter.

In accordance with the board charter and committees' terms of reference, the board and committees are satisfied that it has fulfilled its responsibilities and that there is no one director with unfettered decision-making power.

DELEGATION OF AUTHORITY — BOARD COMMITTEES

To enable the board to properly discharge its responsibilities and duties, certain responsibilities have been delegated to board committees and the EXCO. The board has established two principal committees to assist it in discharging its responsibilities which have formally been delegated by the board Audit and Risk Committee (ARC) and the Remuneration and Social and Ethics Committee (RENSEC).

The board believes committee members are sufficiently qualified and experienced to carry out their duties. Biographies of these committee members are provided on pages 28 to 30 of this integrated annual report.

The committees may, in fulfilling its duties, call on the Chairpersons of other board committees, any of the executive directors, officers or Company Secretary to provide information, subject to following a board-approved process.

The creation of board committees does not reduce the directors' overall responsibilities and therefore all committees must report and make recommendations to the board.

The Chairperson of the board, CEO, CFO, Chief Audit Executive, external auditor, other board directors and other assurance providers (legal, compliance, risk, health and safety) attend ARC meetings by invitation only. Both internal and external auditors have unrestricted access to the ARC.

Board members (not part of the RENSEC committee), as well as the head of human resources for the Howden Africa Group attend RENSEC meetings by invitation.

RENSEC

The committee is a combined committee and is chaired by an independent non-executive director. The committee operates under a mandate from the board, with formal terms of reference approved by the board.

The committee met four times during the year under review and the table on page 45 references the attendance of committee meetings. The Company Secretary attends all meetings as secretary. The CEO, CFO and human resources director of Howden Africa attend all meetings by invitation. No attendee may participate in any discussion or decision regarding his or her own remuneration.

RENSEC membership

The committee comprises five non-executive directors, three of which are independent:

Morongwe Malebye (Chair)	Lead independent non-executive director
James Brown	Non-executive director
Ian Brander	Non-executive director
Humphrey Mathe	Independent non-executive director
Suleman Badat	Independent non-executive director

Mitesh Patel resigned on 19 October 2017 and Suleman Badat was appointed in his stead on 1 December 2017.

RENSEC role and responsibilities

ROLE

The committee has an independent oversight role, making recommendations to the board for its consideration and final approval. The committee does not assume the functions of management, which remain the responsibility of the executive directors, officers and other members of senior management.

The committee assists the board by ensuring that:

- the Company remunerates directors and executives fairly and responsibly;
- the disclosure of director and remuneration is accurate, complete and transparent;
- the board has the appropriate composition for it to execute its duties effectively;
- directors are appointed through a formal process;
- induction and ongoing training and development of directors takes place;
- formal succession plans for the board, chief executive officer and senior management appointments are in place; and
- the Company complies with legal requirements or prevailing codes of best practice, with regard to matters relating to:
  - social and economic development
  - good corporate citizenship
  - the environment, health and public safety
  - consumer relationships
  - labour and employment

RESPONSIBILITIES

Remuneration Committee responsibilities

The committee performs all the functions necessary to fulfil its role as stated above including:

(i) Overseeing the setting and administering of remuneration at all levels in the Company;

(ii) Overseeing the establishment of a remuneration policy that will promote the achievement of strategic objectives and encourage individual performance;

(iii) Ensuring that the remuneration policy is put to a non-binding advisory vote at the general meeting of shareholders once every year;

(iv) Reviewing the outcomes of the implementation of the remuneration policy to determine whether the set objectives are being achieved;

(v) Ensuring that the mix of fixed and variable pay, in cash, shares and other elements, meets the Company's needs and strategic objectives;

(vi) Satisfying itself as to the accuracy of recorded performance measures that govern the vesting of incentives;

(vii) Ensuring that all benefits, including retirement benefits and other financial arrangements, are justified and correctly valued;

(viii) Considering the results of the evaluation of the performance of the CEO and other executive directors, both as a directors and as executives in determining remuneration;

(ix) Selecting an appropriate comparative group when comparing remuneration levels;

(x) Regularly reviewing the incentive schemes to ensure continued contribution to shareholder value and that these are administered in terms of the rules;

(xi) Considering the appropriateness of early vesting of share-based schemes at the end of employment;

(xii) Advising on the remuneration of non-executive directors;

(xiii) Overseeing the preparation and recommending to the board the remuneration report, included in this integrated annual report, to ensure that it:

- is accurate, complete and transparent;
- provides a clear explanation of how the remuneration policy has been implemented; and
- provides sufficient forward-looking information for the shareholders to pass a special resolution in terms of section 66(9) of the Companies Act.

Nominations Committee responsibilities

The Committee must perform all the functions necessary to fulfil its role as stated above including:

(i) Ensuring the establishment of a formal process for the appointment of directors, including:

- identification of suitable members of the board;
- performance of reference and background checks of candidates prior to nomination; and
- formalising the appointment of directors through an agreement between the Company and the director.

(ii) Overseeing the development of a formal induction programme for new directors;

(iii) Ensuring that inexperienced directors are developed through a mentorship programme;

(iv) Overseeing the development and implementation of continuing professional development programmes for directors;

(v) Ensuring that directors receive regular briefings on changes in risks, laws and the environment in which the Company operates;

(vi) Considering the performance of directors and take steps to remove directors who do not make an appropriate contribution;

(vii) Finding and recommending to the board a replacement for the Chief Executive Officer when that becomes necessary;

(viii) Ensuring that formal succession plans for the board, Chief Executive Officer and senior management appointments are developed and implemented.

Social and Ethics Committee responsibilities

The committee must perform all the functions necessary to fulfil its role including:

(i) Monitoring the Company's standing in terms of the goals and purposes of:
- the 10 principles set out in the United Nations Global Compact Principles;
- the OECD recommendations regarding corruption;
- the Employment Equity Act; and
- the Broad-based Black Economic Empowerment Act

(ii) Monitoring the Company's:
- promotion of equality, prevention of unfair discrimination, and reduction of corruption;
- contribution to development of the communities in which its activities are predominantly conducted or within which its products or services are predominantly marketed; and
- record of sponsorship, donations and charitable giving;

(iii) Monitoring the Company's:
- standing in terms of the International Labour Organization Protocol on decent work and working conditions;
- employment relationships, and its contribution toward the educational development of its employees;
- Good corporate citizenship;
- Environmental, health and safety performance;
- Consumer relationships; and
- Labour and employment.

(iv) Drawing matters within its mandate to the attention of the board as occasion requires; and

(v) Reporting, through one of its members, to the shareholders at the Company's annual general meeting on the matters within its mandate.

ARC

A full discussion pertaining to the membership and role and responsibilities this committee commences on page 48 of this integrated annual report.

EXCO

The duties and responsibilities of the members of EXCO are in addition to those as either directors of HAHL or a director of a subsidiary within the Group and is chaired by the CEO.

The EXCO's main purpose is to aid the CEO in discharging his responsibilities as CEO and in so doing:

- Participating in the determination budgets and strategic plans of the Group;
- Monitoring financial performance of the Group;
- Monitoring strategy progress/performance;
- Coordinating the operations of the Group and monitoring the activities of companies within the Group;
- Monitoring the relations and interactions of the Group amongst themselves;
- Making recommendations on and monitoring material employment issues, including remuneration policies;
- Monitoring:
  - customer relations;
  - marketing strategies;
  - significant customer complaints/defects;
  - Consumer Protection Act complaints/breaches; and
  - Ensuring that there are policies and controls in place to adequately deal with the Groups responsibilities and making recommendations regarding Group policies.

MEETINGS AND PROCEDURES

Agendas and minutes

BOARD, ARC AND RENSEC

The board, the ARC and the RENSEC have established annual work plans to ensure all relevant matters are covered by the agendas of meetings planned for the year. The number, timing, length of meetings, and agendas are determined by the annual work plans.

The relevant chairpersons meet with the CEO, CFO and/or Company Secretary prior to any meetings should they need to discuss important issues and agree on the agenda. A detailed agenda, together with supporting documentation, is circulated at least one week prior to each meeting to members and other invitees. This ensures all members are fully prepared and well informed for board meetings and able to provide appropriate and constructive input on matters for discussion.

Minutes are circulated to the relevant chairpersons and members for review which are then formally approved at the next scheduled meeting. Meetings for the coming year are scheduled at the last meeting of the prior year and any meetings in addition to those scheduled may be held at the insistence of a member.

EXCO

EXCO holds a minimum of two meetings per quarter and in practice the EXCO meets on a monthly basis. Any additional meetings may be held at the request of an EXCO member communicated through the CEO. A standard agenda is circulated prior to the meeting by the CEO, who maintains an action and decision lists.

QUORUM REQUIREMENTS

Individuals in attendance at board or committee meetings by invitation may participate in discussions but do not form part of the quorum for board or committee meetings.

A representative quorum for board meetings may be fixed by directors from time to time but is never less than two directors, one of whom must be a director of the holding company (Howden Group South Africa or James Howden & Godfrey Overseas Limited). A representative quorum for ARC and RENSEC meetings is a majority of members present. Five EXCO members will constitute a quorum, one of which must be the CEO or CFO.

BOARD, ARC AND RENSEC EVALUATIONS

The board Chairman with the assistance of the Company Secretary assessed the performance of the board, the ARC and RENSEC internally with the purpose of determining how the board or the relevant committee has performed, ascertaining the effectiveness of the board and identifying areas that might require attention as part of the board work plan for the coming year.

2017 MEETING ATTENDANCE

	Member name	Date of appointment	8 Mar 2017	1 Jun 2017	6 Sep 2017	6 Dec 2017
The Board	IH Brander	26 Jul 2011	P	P	P	P
	J Brown	3 Mar 2005	P	P	P	P
	W Thomson	1 Feb 2016	P	P	P	P
	M Malebye	7 Nov 2007	P	P	P	P
	M Vigouroux	8 Dec 2016	P	P	P	P
	H Mathe	1 Jul 2012	P	P	A	P
	M Patel	15 Dec 2014	P	P	P	A**
	S Badat	1 Dec 2017	A*	A*	A*	P
ARC	M Patel	15 Dec 2014	P	P	P	A**
	H Mathe	1 Jul 2012	P	P	A	P
	M Malebye	7 Nov 2007	P	P	P	P
	S Badat	1 Dec 2017	A*	A*	A*	P
RENSEC	M Malebye	11 Jun 2009	P	P	P	P
	H Mathe	1 Jul 2012	P	P	A	P
	M Patel	15 Dec 2014	P	P	P	A**
	IH Brander	25 Aug 2011	P	P	P	P
	J Brown	3 Dec 2010	P	P	P	P
	S Badat	1 Dec 2017	A*	A*	A*	P

P = present A = absent

* S Badat appointed 01 December 2017.

** M Patel resigned effective 19 October 2017.

The internal assessments revealed that there were no significant areas requiring immediate attention and it was concluded that the board, the ARC and the RENSEC had effectively discharged their respective responsibilities.

The board has resolved to carry out an external evaluation on the board, its committees and directors every second year with the first external evaluation being carried out in 2019 despite it being satisfied with the evaluation processes, annual assessment and respective performance of the board, the ARC and RENSEC and individual directors.

DIRECTORS' DEALINGS

Directors, officers and certain employees are prohibited from dealing in Company securities for a designated period preceding the announcement of its financial results or in any other period considered sensitive. The Chairman, through the Company Secretary, approves all dealings by directors during open periods. The Group has developed a formal policy to govern this process. There were no HAHL share or security dealings by HAHL directors or EXCO members in 2017.

COMPANY SECRETARY

Craig Masson, aged 35, was appointed as Company Secretary on 1 August 2016. He is an admitted attorney of the High Court with an LLB degree as well as a Higher Diploma in Corporate Law from the University of Johannesburg and has 10 years' post-admission experience.

The Group Company Secretary ensures that all directors have full and timely access to the information required to properly discharge their duties so that the board and its sub-committees can function effectively. The board is cognisant of the duties imposed on the Company Secretary, who is accordingly empowered to properly fulfill his duties.

The Company Secretary oversees the induction of directors, provides guidance to the board on its duties (collectively and individually), and reviews and negotiates contractual terms and conditions agreed to by the Group, in addition to the statutory duties as defined in the Companies Act.

The Group Company Secretary is not a director of Howden Africa Holdings Limited and the board is satisfied that the Company Secretary maintains an arms-length relationship with the board as he is not an associate of any director and is not subject to undue influence of one or more of the directors.

The Company Secretary's performance is evaluated annually in line with the Howden Group's standard appraisal process which identifies SMART objectives (KRAs), a mid-year and final year-end review to monitor and rate the Company Secretary's performance in terms of the set KRAs. The board as a whole has discussed the performance of the Company Secretary and is satisfied with his competence, qualifications and experience.

POLITICAL CONTRIBUTIONS

It is Group policy not to make donations or other contributions to political parties or causes.

SUSTAINABLE DEVELOPMENT GOVERNANCE

The Company operates within a sustainable business environment still taking some guidance from the Global Reporting Initiative which covers three development spheres of economic, social and environmental performance.

The Company's sustainability policy is based on balanced society rules, local and global labour practices and international human rights standards, which aims for the Company to be economically viable, environmentally regenerative and accountable for its products and services.

Reference the following sections for discussions on:

- Performance and highlights on page 2
- Stakeholder engagement on page 17
- Howden's strategy on page 12
- Risk management on page 14

ETHICS PERFORMANCE

A review by RENSEC of the Group's ethical performance appears on page 54 of the integrated annual report.

IT GOVERNANCE

The Group has developed and established a set of comprehensive IT policies and procedures that support the organisation and achieving its strategic objectives.

The Group's IT strategy is formulated by a worldwide Howden steering and sustainability objectives of the committee, the Information Systems Steering Group (ISSG). One of the organisation's objectives is to align IT/IS strategy with wider Group objectives. The Group's CFO, Marinella Vigouroux, is also the Group's Information Officer (CIO) who is a member of this ISSG committee.

The board has delegated to the CIO and EXCO the responsibility of controlling and managing the IT governance framework. Any large, strategic and significant IT projects are approved by the board, CIO and the Howden Global Chief Information Officer, to ensure effective procurement processes and alignment with strategy and technology standards.

IT risks are identified, assessed and managed by an IT Risk Committee chaired by the Group's CIO which provides a quarterly report to the EXCO Risk Committee. The Group has comprehensive IT disaster recovery policies and procedures in place. All personal, commercially sensitive and confidential information stored in systems, such as ERP, finance, payroll and HR systems, have restricted access procedures. All applications are subject to a confidentiality, integrity and availability analysis to ensure appropriate security controls are implemented.

EXCO risk management and board Audit and Risk Committees are in place and IT risks are reported to these committees where applicable.

During the 2017 period a Warehouse Management System within the Fabrication Technology Division was implemented and work commenced on an integrated Environmental, Health and Safety (EHS) System. The business now benefits from a 24-hour support desk coordinated by the Global IT team which has improved efficiency of general IT support. There were no major issues in the period, but an increase in email spoofing was observed and as a mitigation response, all associates were provided with awareness training on cyber security.

The main IT capital expenditure during the year under review related to the purchase of a storage area network, which strengthens the Company's backup systems.

In 2018 the Company's integrated EHS system will be implemented. There will be an added focus to introduce Big Data based projects with the objective of improving the customer experience. Plans are underway to upgrade operating systems and introduce improved solutions in preventing malicious attacks with particular attention on ransomware.

LEGAL COMPLIANCE

The Company has an established legal department with two qualified legal professionals, both of whom are admitted attorneys, one of which also acts as the Company Secretary.

The board, with the assistance of the Company Secretary, regularly monitors the impact of changes in laws (e.g. competition law), rules (e.g. JSE Listings Requirements), codes (e.g. SEIFSA, B-BBEE, bargaining council decisions and agreements), and industry standards. Where necessary, members of the board, EXCO, Company Secretary and Legal Officer receive training.

Group employees who engage with customers, competitors, suppliers and vendors have received training on competition law as well as anti-corruption and anti-bribery laws.

In addition, the Company has access to its ultimate holding company's legal department, which is able to assist with compliance matters.

The Group endeavours to keep up to date with all intended or promulgated legislation by regularly interacting with its legal department.

Legislative, regulatory and other compliance risks are identified, assessed and managed by the legal department and form part of a legal risk register which is provided quarterly to the EXCO Risk Committee for consideration and inclusion into the Group's risk register if pertinent.

The Group investigated the introduction of the new regulations in terms of the Preferential Procurement Policy Framework Act (PPPFA), its application and the implementation of the PPPFA. Independent external advice was sought in this regard and an internal task team for purposes of meeting the requirements in terms of the PPPFA was established. Howden is confident that it is and/or will meet its legal obligations in terms of the PPPFA and this will remain a key area of future focus.

In 2017 the Group's Health and Safety Department received two notices from the Department of Labour. The first of which was a notice of contravention in respect of the failure to conduct training for employees exposed to noise and hazardous substances, tests on extraction fans re hazardous substances, and failure to conduct monitoring of control limit substance every 12 months.

The second notice was one of improvement in the development hearing conservation programme; in conducting biological monitoring on employees; and to conduct heat stress survey at hottest point of the year and to conduct cold stress survey at coldest point of the year.

The action taken from the Health and Safety Department is set out in the material issues report on pages 20 to 25.

No inspections were carried out by environmental regulators and thus no material non-compliance findings were made.

During the year under review, the Group remained subject to the but not limited to the following Acts:

- The Competition Act
- The Occupational Health and Safety Act
- The Protection of Personal Information Act
- The Income Tax Act
- The Tax Administration Act
- The Employment Equity Act
- The Broad-based Black Economic Empowerment Act and related Codes of Best Practice
- The Preferential Procurement Policy Framework Act

KING IV COMPLIANCE

The Company aims to continuously improve its compliance with King IV. During the past year, the Group continued to enhance its governance, assurance and risk management practices relative to the requirements of King IV and the Companies Act. A comprehensive gap analysis was carried out in 2017 in respect of the recommendations of the King IV Report and the organisation was seen as substantially compliant with the King IV Report. All subsequent areas of non-compliance have been addressed and entrenched together with existing internal controls, policies, terms of reference and overall procedures.

AUDIT AND RISK COMMITTEE REPORT

The Audit and Risk Committee (the committee) is pleased to present its report for the financial year ended 31 December 2017.

This independent statutory committee is appointed by shareholders with further duties that are delegated to it by the board of directors. This report includes a discussion of both sets of duties and responsibilities.

ABOUT THE COMMITTEE

The committee operates under a formal terms of reference which has been approved by the board. The committee has conducted its affairs and discharged its responsibilities in compliance with these terms of reference.

Committee members

The committee is independent and comprises three directors who are considered independent non-executive directors in terms of both the Companies Act and King IV. Committee members are nominated by the Remuneration, Nomination, and Social and Ethics Committees and then recommended by the board to shareholders for appointment each year.

The following directors offer themselves up for election by shareholders in terms of section 94(2) of the Companies Act at the annual general meeting to be held on 30 May 2018:

- **Suleman Badat**, as Chairman
- **Morongwe Malebye**, as member
- **Humphrey Mathe**, as member

The committee met four times during the year under review. The table on page 45 references the attendance at these committee meetings. The Chairman of the board, Chief Executive Officer, Chief Financial Officer, Chief Audit Executive, and external auditor regularly attend meetings by invitation.

Refer to current page for annual assessment details and page 28 for a brief CV on each director standing for election to the committee.

Role and responsibilities

The committee's statutory duties are defined by the Companies Act and it has further responsibilities delegated to it by the board which include, but are not limited to:

- Monitoring the integrity of the annual and interim financial statements, the accompanying reports to shareholders and corporate governance statements;
- Making recommendations to the board concerning the adoption of the annual and interim financial statements;
- Overseeing the Group's relations with the external auditors, including assessment of independence and effectiveness of the external auditor;
- Making recommendations to the board on the appointment, retention and removal of the external auditors and the tendering of external audit services;
- Reviewing and monitoring the effectiveness of the Group's internal control and risk-management systems, including reviewing the process for identifying, assessing and reporting all key risks;
- Approving the terms of reference and plans of the internal audit function;
- Approving the internal audit plan and reviewing regular reports from the Head of Internal Audit on the effectiveness of the internal control system; and
- Receiving reports from management on the key risks of the Group and management of those risks.

Statutory duties

EXTERNAL AUDITOR — INDEPENDENCE, APPOINTMENT AND ROTATION

Independence of an external auditor may be impaired due to a lack of control over non-audit services it provides. In essence, the external auditor's independence is deemed to be impaired if the auditor provides a service that:

- results in it acting as a manager or employee of Howden;
- puts it in the role of advocate for Howden; and
- creates a mutuality of interest between it and Howden.

The Company addresses issues of independence by way of three primary measures, being:

- The disclosure of the extent and nature of non-audit services;
- The prohibition of selected services which includes the undertaking of internal audit services;
- Prior to engagement for the provision of non-audit services, approvals must be obtained from:
  - (a) Ernst & Young's lead audit partner in the US; and
  - (b) Howden's ultimate controlling parent company, Colfax Corporation.

Once all the above approvals have been obtained, the Howden Africa Audit and Risk Committee must confirm the appointment. Howden's policy on the provision of non-audit services is regularly reviewed. The committee has the authority to engage independent counsel and other advisers as they determine necessary in order to resolve issues on the external auditor's independence.

The committee ensures that the scope of the external auditor's work is sufficient and that the external auditor is remunerated fairly.

An annual assessment is undertaken to determine the auditor's effectiveness, independence and objectivity. The effectiveness assessment involves a review of the audit process, including the planning, execution and reporting activities. It also assesses the quality, quantity and leadership of each of the external audit teams involved in the audit. The participants of this review include the senior finance managers of all the business units. Any improvement opportunities identified are discussed with the external auditors.

The independence and objectivity assessment reviews the compliance with the policies in place in the Group and within the external auditors to maintain independence and objectivity. The results of the review are disclosed to the committee.

The committee has satisfied itself as to the independence of the external auditor, as set out in section 94(8) of the Companies Act, which includes considering previous appointments of the auditor, the extent of other work undertaken by the auditor for the Company and compliance with criteria relating to independence or conflicts of interest as prescribed by the Independent Regulatory Board for Auditors. The requisite assurance was sought and provided by the auditor that internal governance processes in the audit firm support its claim of independence from the Company.

The committee together with the external auditors identified the following significant matters, which was addressed during the course of the year:

- Revenue recognition; and
- Deferred revenues.

The external auditors are required to adhere to a rotation policy which is based on best practice and professional standards in South Africa. The rotation period for the audit engagement partner is five years and, for any key audit partner, seven years. Charles Trollope who resigned as audit partner at the end of March 2017 was substituted by the current audit engagement partner, Cornelius Els who was appointed at the end of March 2017.

It is Company policy not to employ, in a key management position, any partner designated as a key audit partner of Howden unless a period of at least two years since the conclusion of the last relevant audit has passed.

The committee ensured that the appointment of the auditor complied with the Companies Act and any other legislation dealing with the appointment of auditors.

The committee, in consultation with executive management, agreed to the engagement letter, terms, audit plan and budgeted audit fees for the 2017 year.

The committee is satisfied with the quality of the external audit carried out during 2017.

The committee nominates for election at the annual general meeting, Ernst & Young Inc. as the external audit firm and Cornelius Els as the designated audit engagement partner responsible for performing the functions of auditor for the 2018 year. The committee has satisfied itself that the audit firm and designated auditor are accredited as such on the JSE list of auditors and their advisers.

NON-AUDIT SERVICES PROVIDED BY THE EXTERNAL AUDITORS

A policy detailing the procedure for appointing external auditors to carry out non-audit services has been implemented. Non-audit fees were paid to Ernst & Young Inc. during 2017 and are disclosed in note 23 of the annual financial statements.

FINANCIAL STATEMENTS AND ACCOUNTING PRACTICES

After having reviewed the annual financial statements of the Group and Company, the committee is satisfied that they comply with International Financial Reporting Standards.

INTERNAL FINANCIAL CONTROLS

The system of internal financial and operational control is the responsibility of the board. The executive directors ensure that assets are protected, systems operate effectively and all valid transactions are recorded properly.

These systems are designed to provide reasonable assurance as to the integrity and reliability of the financial statements, to safeguard, verify and maintain accountability of Howden's assets and to identify and minimise significant fraud, potential liability, loss and material misstatement while complying with applicable laws and regulations.

During 2017, Howden formally reviewed its key internal financial controls. It is pleasing that, based on the results of this review, information and explanations given by management, and discussions with the external auditors on the results of their audit, nothing has come to the attention of the committee that has caused it to believe the Group's system of internal financial controls is not effective.

WHISTLE-BLOWING

The committee monitors the whistle-blowing programme, which is designed to enable stakeholders such as employees, customers and suppliers, to anonymously and/or on a confidential basis, to report concerns in cases where behaviour is considered to be in violation of Company policies and its values. This may include:

- Any actions that may result in endangering the health and safety of people or damage to Howden property and the environment;
- Any unethical practices in accounting, internal accounting controls, financial reporting and auditing matters;
- Any criminal offences, including money laundering, fraud, bribery and corruption;
- Any failure to comply with any legal obligation;
- Any miscarriage of justice;
- Any conduct contrary to the ethical principles embraced in the Company's business principles or any similar policy;
- Any other legal or ethical concern; and
- The concealment of any of the above.

The programme makes use of various communication channels like telephonic, email, web-based and surface mail methods to receive information about unethical practice in Howden and its managed operations. The multilingual communication facilities are managed by independent third parties who remove all indications from information received as to the identity of the callers before submission to designated persons in the Group.

Strict confidentiality of reports received was maintained and they were referred to the appropriate line managers within the Group for resolution. The necessary disciplinary action, where required, was taken to address the issues raised. These reports are analysed and monitored by the committee to ensure the process is effective.

Duties assigned by the board

In addition to the abovementioned statutory duties of the committee, the board has delegated further functions to the committee, as set out in the terms of reference.

INTEGRATED REPORTING

The committee considers the Company's sustainability information and fulfils an oversight role on the Company's integrated annual report. It has assessed its consistency with operational and other information known to committee members, and for consistency with the annual financial statements. The committee engaged with management and the Chairman of the Sustainability Committee and discussed the sustainability information disclosed in this integrated annual report.

The committee is satisfied that such information is reliable and consistent with financial results. The committee has also satisfied itself of the integrity of the remainder of the integrated annual report. Having achieved its objectives, the committee has recommended the integrated annual report for the year ended 31 December 2017 for approval to the Board.

AUDIT AND RISK COMMITTEE REPORT CONTINUED

The Board has subsequently approved the integrated annual report, which will be open for discussion at the forthcoming annual general meeting.

GOING CONCERN

A documented assessment has been reviewed by the committee, including key assumptions prepared by management of the going-concern status of the Company and the committee has made a recommendation to the board.

GOVERNANCE OF RISK

The board has assigned oversight responsibilities of the Company's risk management function to the committee which is in addition to its oversight role on financial reporting risks, internal financial controls, fraud risk as it relates to financial reporting and information technology risk as it relates to financial reporting.

The committee, in conjunction with the board, considers all major risks identified by the business as discussed in detail in the Risk Management report commencing on page 14 of this integrated annual report.

The implementation of risk management systems and processes was monitored during the year by the committee which has reviewed the Group's most significant risks as identified by the Exco Risk Committee each quarter. The committee believes the risk management systems and processes in place are appropriate and effective.

INTERNAL AUDIT

The committee ensures the Company's internal audit function is independent and has the necessary resources, standing and authority to discharge its duties. The internal audit department reports centrally to the business and is responsible for reviewing and providing assurance on the adequacy of the internal control environment across all of its operations.

The Chief Audit Executive reports the findings of internal audit regularly to the committee. The committee also oversees the cooperation between the internal and external auditors, and serves as a channel linking the board of directors and these functions.

The committee approved the internal audit function's mandate and annual audit coverage plans. The committee and Group senior management receive a summary of audit results and risk management information at regular intervals throughout the year. The Group's Chief Audit Executive reports to the committee on the internal audit function's performance as measured against the agreed internal audit plan.

The committee assesses the internal audit function and Chief Audit Executive annually. The 2017 assessment did not reveal any areas for concern and the committee has concluded that:

- The internal audit function is effective and adequately discharged its responsibilities; and
- The competence, qualifications, experience and overall performance of the Chief Audit Executive are satisfactory.

The Group's internal audit function and external auditors have a formal collaboration process in place to ensure efficient coverage of internal controls. The Howden internal audit function provides independent assurance on the effectiveness of the risk management process throughout the Group to executive management and the board.

EVALUATION OF THE FINANCIAL DIRECTOR/CHIEF FINANCIAL OFFICER AND FINANCE FUNCTION

The committee has satisfied itself that the CFO, Marinella Vigouroux, has the appropriate expertise and experience and has considered, and satisfied itself, of the appropriateness of the expertise and adequacy of resources of the finance function and experience of senior members of management responsible for the financial function.

COMMITTEE ASSURANCE

The committee is satisfied that it has executed its duties in terms of the requirements as set out in its terms of reference, King IV and the Companies Act. It is furthermore satisfied that it complied with its legal, regulatory or other responsibilities in the 2017 financial year.

Suleman Badat
Chairman

28 March 2018

REMUNERATION REPORT

REMUNERATION COMMITTEE MEMBERSHIP

The committee consists of five non-executive directors, three of which are independent:

Morongwe Malebye (Chair)	Lead independent non-executive director: appointed 11 June 2009
James Brown	Non-executive director: appointed 3 December 2010
Ian Brander	Non-executive director: appointed 25 August 2011
Humphrey Mathe	Independent non-executive director: appointed 31 August 2012
Suleman Badat	Independent non-executive director: appointed 1 December 2017

REMUNERATION COMMITTEE RESPONSIBILITIES

The Remuneration Committee's responsibilities are discussed in detail in the Corporate Governance report commencing on page 40 of this integrated annual report.

PART 1: BACKGROUND STATEMENT

Dear stakeholders

On behalf of the Howden Remuneration Committee and the board of directors, I present the Company's remuneration report for the year under review.

The committee takes cognisance of the following factors in making its decisions around remuneration:

- Business performance (internal)
- Market conditions (external)
- Individual performance (internal)
- Demand (external)
- Succession planning (internal)

In terms of Ordinary Resolution 4 of the 2016 Annual Report the Remuneration Policy of the Company and its subsidiaries was put to the shareholders for a non-binding advisory vote.

The remuneration policy and the implementation report will be tabled to the shareholders each year at the annual general meeting for a separate non-binding advisory vote.

In the event that either the remuneration policy and/or the implementation report are voted against by 25% or more of the voting rights exercised, the committee together with the board will take steps in good faith and with best reasonable effort to enter an engagement process to ascertain the reasons for the dissenting votes.

The committee and the board will thereafter appropriately address any legitimate and reasonable objections and concerns raised, which may include amending the remuneration policy, or clarifying or adjusting remuneration governance and/or processes.

The committee together with the board will in the remuneration report succeeding the voting disclose with whom the Company engaged, and the manner and form of engagement to ascertain the reasons for dissenting votes as well as the nature of steps taken to address any legitimate and reasonable objections and concerns.

The Group makes use of the services of PwC Remchannel to benchmark employees and in terms of this the basic salary and other benefits are reviewed annually and regularly benchmarked against employees in comparable industry sectors.

The business once again was successfully certified "Top Employer 2018" during the 2017 period.

The Remuneration Committee is satisfied that it acted independently and objectively and is of the view that the remuneration policy continues to achieve its stated objectives.

In line with these recommendations, the committee is of the opinion that the remuneration policy discussed below and the implementation thereof reflects improved disclosure and it is working towards further improvement going forward in order to realise the principles and recommendations as set out in King IV and the Companies Act.

M Malebye
Chairperson

28 March 2018

PART 2: REMUNERATION POLICY

The remuneration philosophy of Howden is to ensure that employees are rewarded for their contribution according to industry, market and country benchmarks. The committee is responsible for the evaluation and approval of the broad remuneration strategy of the Company.

Employee guaranteed pay

Employees are guaranteed a basic salary set at levels that are competitive in the relevant market. The basic salary and other benefits are reviewed annually and regularly benchmarked against employees in comparable industry sectors. The Group uses the services of PwC Remchannel to benchmark employees.

Weekly paid employees are paid in line with industry collective agreements.

Executive and senior manager remuneration and incentives

Howden seeks to attract, motivate and retain exceptional executives who have the experience of operating in a complex engineering and manufacturing environment. The remuneration of executive directors and senior management is based on a total cost of employment, which includes a fixed guaranteed package, which includes a company car or vehicle allowance, benefits such as pension fund and medical aid and a cash variable incentive linked to KPIs on overall business performance and key areas including, order intake, profit and working capital.

REMUNERATION REPORT CONTINUED

For further information on the remuneration paid to executive directors, refer to note 33 of the financial statements. The said note also includes details on performance requirements which are linked to bonus entitlements.

Employee benefits

PENSION FUND — MONTHLY PAID EMPLOYEES

The Group operates both a defined benefit pension fund as well as a defined contribution pension fund.

Defined benefit pension fund

The Group operates a post-retirement scheme that covers all employees employed before 1 January 2001. The pension fund is a final salary defined benefit plan. The assets of the fund are held in an independent trustee administered fund, which is administered in terms of the Pension Fund Second Amendment Act No 39 of 2001. The fund is valued annually using the projected unit credit method. The latest actuarial valuation for accounting purposes was performed on 31 December 2017 and the most recent statutory actuarial valuation was performed as at 31 March 2015.

In late 2014 the fund purchased annuities to back the pensions payable to existing pensioners. In 2015 approval was obtained from the Financial Services Board (FSB) for ownership of these annuities to be transferred to the pensioners themselves. During 2015, the remaining members (who were all active employees) were offered the opportunity to join the Defined Contribution pension fund (DC Plan) for future service and to transfer their accrued benefits from the fund into the DC Plan. Of the 52 employees, 51 accepted this transfer and one retired during the offer window. An annuity has been bought for the one new pensioner. In late 2016 approval from the FSB was obtained to transfer active members to the DC Plan. The active members' fund was transferred to the DC Plan in November 2016. Five pensioners remain on the DB Plan and the liability is fully insured, the Fund purchased annuities to back the pensions payable to existing pensioners.

Defined contribution pension fund

Monthly paid employees joining on or after 1 January 2001 are required, subject to fund rules eligibility, to join the Howden SA Defined Contribution Pension Fund and Group Life Scheme.

The Company contributes the equivalent of 9% based on an employee's basic salary, 7.01% of which is allocated toward the pension fund credit. The remaining 1.99% is allocated towards fund administration and Group life premiums.

PENSION FUND — HOURLY PAID EMPLOYEES

Hourly paid employees belong to the Metal and Engineering Bargaining Council Funds. These are the Engineering Industries Pension Fund (a closed fund effective January 2001) and the Metal Industries Provident Fund. The Company contributes 6.9% of the member's wage to these funds.

MEDICAL AID

Medical aid is compulsory for all monthly paid employees. Weekly paid employees have an option to belong to the medical aid as it is not a condition of employment in the Metal and Engineering Industries Bargaining Council.

The Company contributes a set rand value depending on the Discovery medical plan selected by an employee. This is regardless of seniority or salary on which that employee is.

SHORT-TERM INCENTIVE

Employees receive an annual discretionary incentive bonus based on Company and individual performance targets. Howden Africa has a formal framework for performance management that is linked to and supports the annual short term incentive scheme. Targets are reviewed regularly to ensure they remain appropriate.

LONG-TERM INCENTIVE

A long term incentive scheme has been implemented which has been designed:

- As a Long-term Cash Plan which tracks Company performance using specific key performance indicators (KPIs);
- To measure the growth in operating profit on a year-to-year basis;
- To award an amount at the outset which will grow or shrink depending on the Company's performance against the KPIs, and will pay out in years two, three and four.

This scheme will be applicable to new associates who are identified as key talent or associates who will occupy roles which would ordinarily come with a package which is inclusive of a LTIP.

The LTIP operates as follows:

- Each eligible associate will be awarded an initial amount based upon a percentage of their base pay, which will be held in the scheme, and which will vest in three equal portions over the following two, three and four years;
- At vesting the portion will have grown (or reduced) based upon the performance of the Company;
- The mechanics of how the portions grow will be self-funding, and will draw from the success of the business.

Non-executive directors' fees

Independent non-executive directors' fees are benchmarked on an annual basis and approved by shareholders at the annual general meeting of shareholders.

For information on non-executive director fees paid in 2017, refer to note 33 of the annual financial statements.

PART 3: IMPLEMENTATION REPORT

Howden does not operate a share incentive scheme; however, some senior executives participate in a scheme operated by the Group's majority shareholder, Colfax Corporation. Executive director and senior management incentives are aligned with the Group's performance and the individual's performance together with the performance of the Global Howden Organisation.

The RENSEC approved a 7% increase for independent non-executive directors.

EXECUTIVE AND NON-EXECUTIVE DIRECTOR REMUNERATION

R'000	**Total remuneration**	Non-executive Director fees	Basic salary	Bonus or performance related payments	Any other benefit	Contribution to pension scheme
W Thomson	**6 274**	—	2 665	796	2 547	266
M Vigouroux	**2 250**	—	1 573	—	567	110
K Johnson (resigned 8 December 2016)	**190**	—	—	—	190*	—
J Brown	**—**	—	—	—	—	—
I Brander	**—**	—	—	—	—	—
H Mathe	**196**	196	—	—	—	—
M Malebye	**294**	294	—	—	—	—
S Badat	**66**	66	—	—	—	—
M Patel	**207**	207	—	—	—	—

* Annual leave.

REMUNERATION OF OTHER EXCO MEMBERS

R'000	**Total remuneration**	Basic salary	Bonus or performance related payments	Any other benefit	Contribution to pension scheme
6 individuals	**13 129**	8 460	1 234	2 845	590

Due to the competitive nature of our business environment the Company has chosen to not disclose the Exco individual earnings.

RESIGNATION DISCLOSURE

The following members of the board and EXCO resigned during 2017, including payments made on termination:

	Date of termination	Payments made on termination	Nature of payment
M Patel	**19 Oct 2017**	Nil	—
M Borello	**29 Dec 2017**	25	Annual Leave

There were no known deviations to the remuneration policy during the period.

SOCIAL AND ETHICS REPORT

The Social and Ethics Committee has been constituted in terms of section 72(4) of the Companies Act No. 71 of 2008, as amended and its accompanying regulations, to implement the mandate prescribed by regulation 43(5). This committee enhances Howden's oversight of key issues, including entrenching sustainability in its long-term strategy. The committee met four times during the year under review. The table on page 45 references the attendance of committee meetings.

MEMBERSHIP

The committee consists of five non-executive directors, three of which are independent, namely:

Morongwe Malebye (Chair)	Lead independent non-executive director: appointed 11 June 2009
James Brown	Non-executive director: appointed 3 December 2010
Ian Brander	Non-executive director: appointed 25 August 2011
Humphrey Mathe	Independent non-executive director: appointed 31 August 2012
Suleman Badat	Independent non-executive director: appointed 1 December 2017

COMMITTEE RESPONSIBILITIES

The committee's responsibilities are discussed in detail in the Corporate Governance report commencing on page 40 of this integrated annual report.

The key areas of focus of the committee during 2017 were:

- Engagement in a culture of safety
- Increasing level of associates engagement through the engagement survey and action planning
- Aligning compensation and benefits with employee performance and retention
- Building internal capacity and resilience through talent management and succession planning initiatives
- Achieving "Top Employer" status

The committee's future areas of focus will be to:

- Enhance organisational capability to deliver business growth
- Deliver results and improvements from annual employee engagement surveys
- Strengthen the safety culture throughout the business via key initiatives
- Active management of personal development plans
- Ensure all new associates undertake business ethics training as part of induction
- Build on the current level 4 B-BBEE rating under the amended codes, targeting improvements in ratings on our journey to the next level
- Continue with proactive engagement with local community stakeholders and create further opportunity for local utilisation
- Maintain "Top Employer" status

SOCIAL AND ETHICAL PERFORMANCE IN 2017

Labour and employment

EMPLOYMENT

The Group's employees are its most important resource — their commitment, creativity, skills and energy are central to achieving the Company's objectives.

It is a business imperative that the workplace excludes all forms of discrimination, intimidation and harassment. An environment where each employee is treated fairly and with respect will allow them to maximise their potential. Howden endeavours to abide by all applicable employment laws, rules and regulations, including laws, rules and regulations governing working conditions, wages, hours, benefits and minimum age for employment, wherever it conducts business. The Company exercises an inclusive approach in its engagement with its employees, in all employment relationship phases, without prejudice in any way to gender, colour, race, ethnicity, sexual orientation, physical or mental disability, age, pregnancy, religion, veteran status, national origin or any other legally protected status.

BROAD-BASED BLACK EMPOWERMENT AND EMPLOYMENT EQUITY

In terms of the Amended Codes of Good Practice, Howden successfully maintained its Level 4 Contributor status.

Notwithstanding this success, the Group continues to strive to enhance its performance in this regard, increasing its score by 5.23 points from the previous audit. The Group's efforts in respect of employment equity, skills development, preferential procurement and socio-economic development are more fully dealt with on page 22 under the heading "Transformation and society".

It is confirmed that the Group has complied with its reporting requirements in terms of the Employment Equity Act 55 of 1998.

Ethics management and code of conduct

A zero-tolerance approach is taken to unethical behaviour and Howden expects that the Group and all its employees uphold its good reputation, as its integrity can only be maintained by operating its business in accordance with the highest ethical standards and in compliance with all applicable laws and regulations.

Aligned with the Organisation for Economic Cooperation and Development's recommendations regarding corruption, the Group code of conduct governs the conduct and behaviour of all Howden employees. The code of conduct is available to all employees on the Group's intranet. The code deals with subject matters concerning the reporting of violations; compliance with laws, rules and regulations; honest and ethical conduct; competition and fair dealing; conflicts of interest; insider trading; unfair competition/anti-trust; employment; bribes, gifts and gratuities; political contributions and safety, health and environmental protection.

The Group furthermore expects all suppliers to abide by a suppliers code of conduct covering matters concerning legal compliance and business practices; the prohibition of corruption and bribery; respect for the basic human rights of employees; health and safety of employees and environmental protection.

All managers are responsible for compliance with and enforcement of this code for their area of operation, including with respect to sales agents, representatives, independent contractors, distributors and consultants.

The whistle-blowing procedures — the South African Deloitte Tip-offs Anonymous platform ("Ethics Hotline") — in place encourage reporting of unethical behaviour. The Ethics Hotline allows employees and individuals to anonymously report breaches in ethics including ethics violations, theft, fraud, discrimination, harassment, and substance abuse are reported by an employee to the Ethics Hotline. The Ethics Hotline is a secure, third-party anonymous incident reporting system and is available 24-hours a day via the website or by calling the Ethics Point call centre.

During the year under review one of the committee's key focus areas was in respect of conflicts of interest within the business. Howden rolled out competition and anti-trust training via an e-learning module and reinforced its existing conflicts of interest related policies through notices explaining conflicts of interest and the reporting requirements associated with conflicts of interest. Ongoing reinforcement across all levels of the Group will continue in order to combat bribery and corruption both internally and externally, and, among our large vendor database.

Going forward the business looks to reinforce the code of conduct requirements internally by way of e-learning modules available to employees and externally by engaging with the supply base through supplier day initiatives, with a specific focus on labour brokers.

Socio-economic development and corporate citizenship

A key component of the Company's business strategy is being a responsible and contributing corporate citizen. The Company is committed to the empowerment, development and growth of disadvantaged communities which is brought about by way of its community investment strategy.

Howden's corporate social investment programme involves:

- Making a positive, sustainable impact on the communities in which the Company operates by contributing to the improvement in the quality of life of disadvantaged communities
- Developing and empowering disadvantaged communities in the social, economic and environmental spheres for the sustainability and long-term growth of Howden
- Building and strengthening relationships with the Company's existing and potential stakeholders by forming mutually beneficial strategic partnerships
- Creating and improving Howden's reputation as a caring corporate citizen
- Attracting quality, socially responsible employees to the Company as well as retaining and enhancing the loyalty and pride in the Company for existing employees
- Enhancing relationships with major customers through the strategic positioning of Howden as a contributor in the development of disadvantaged communities

The Group's efforts in respect of corporate social investment are more fully dealt with on page 22 under the heading "Transformation and society".

HEALTH, SAFETY AND ENVIRONMENT

One of the Company's primary objectives is maintaining a safe and healthy working environment for all stakeholders. Howden is committed to meeting the needs of customers and consumers in an environmentally sound and sustainable manner, through continuous improvement of its environmental performance in all of its activities by continuously identifying the negative aspects that its products and operations may have on the environment.

The Group's efforts in respect of health, safety and environment are more fully dealt with on page 21.

Consumer relations

The majority of Group contracts are negotiated extensively with its customers by the various business units in conjunction with the Group's legal department and to a large extent, the Consumer Protection Act, No. 68 of 2008 does not apply to the Group's transactions. This is the case as only a small percentage of the Group's transactions with customers fall below the R2 million juristic consumer threshold as set by the Minister in terms of section 6(1) of the Consumer Protection Act.

There are no known complaints from consumers to the Consumer Commission and/or Tribunal relating to any of the Group companies.

COMMITTEE ASSURANCE

The committee is satisfied that it complied with its legal, regulatory or other responsibilities during the 2017 financial year.

M Malebye
Chairperson

28 March 2018

CHIEF FINANCIAL OFFICER'S REVIEW

Marinella Vigouroux
Chief Financial Officer

Revenue

R1 743.0m

+8.6% (2016: R1 604.5m)

Cash and cash equivalents

R1 176.4m

+29.4% (2016: R909.3m)

Operating profit

R316.2m

+27.7% (2016: R247.6m)

Total orders received

R1 719.7m

+9.3% (2016: R1 572.7m)

INTRODUCTION

The review of the Group's financial performance for the year ended 31 December 2017 is focused on the order book and key line items of the statements of comprehensive income and financial position that management considers to have a material impact on performance.

The following review should be read in conjunction with these annual financial statements as contained on pages 64 to 103.

OVERVIEW OF FINANCIAL PERFORMANCE

The overall 2017 performance for the Group has been positive with growth both in revenue and operating profit margin. The growth was driven by both the Fabrication Technology division starting to see market share growth, although not at the rate anticipated for the year, and an improvement in project execution and management in the Environmental Control division.

The Fans and Heat Exchangers division has experienced a decline in both revenue and operating profit margin as this division starts to shift markets served, and sees pricing pressure from customers on the back of low economic growth in South Africa.

The business overall has performed well in 2017, given significant external headwinds experienced in the period

Headline earnings per share has increased by 28.3% to 426.58 cents from 332.36 cents in 2016, this is attributable to improved operating profit margin of 18.1%, a 27.7% rand increase from 2016, and an increase of 39.5% in finance income on excess cash.

HEPS AND EPS (CENTS)

ORDER BOOK ANALYSIS

Rm	2017	2016	% change
Orders received	**1 719.7**	1 572.7	9.3
— New build	**511.1**	439.7	16.2
— Aftermarket	**1 208.6**	1 133.0	6.7
Order book	**711.8**	770.4	(7.6)
— New build	**245.3**	321.9	(23.8)
— Aftermarket	**466.5**	448.5	4.0

ORDERS

Orders received during 2017 increased by 9.3% to R1 719.7 million compared to the corresponding period (2016: R1 572.7 million)

The closing order book for 2017 has fallen to R711.8 million (2016: R770.4 million) as large projects are completed in the year. The aftermarket order book has increased by 4.0% resulting from retrofit orders received in the 2017 period. New build order book has reduced 23.8% as large projects have been completed in the year.

Environmental Control division order intake reduced by 19.9% to R192.1 million compared to the corresponding period (2016: R239.9 million). The division continues to have a large opportunity list.

Fans and Heat Exchangers division orders received during 2017 have increased by 14.3% to R1 415.2 million compared to the corresponding period (2016: R1 238.3 million). The increase has been driven by new build activity in areas outside of South Africa, retrofit projects and maintenance agreements signed in the period. Within this division we are starting to see slow recovery in the mining and other industries across the border with subdued spending from customers within South Africa.

The new Fabrication Technology division order intake for 2017 is R112.4 million, with R106.1 million of this converted into revenue in the period. This business has not increased market share as expected in the period but the view is that the business will grow in the coming year.

CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

STATEMENT OF COMPREHENSIVE INCOME

Rm	2017	2016	% change
Revenue	**1 743.0**	1 604.5	8.6
Operating profit (EBIT)	**316.2**	247.6	27.7
Operating profit margin (%)	**18.1**	15.4	2.7
Net finance income	**77.4**	55.5	39.5
Tax	**113.3**	84.7	33.8
Profit for the year	**280.3**	218.4	28.3

REVENUE

Revenue of R1 743.0 million for 2017 is ahead of the equivalent period in 2016 of R1 604.5 million.

The Environmental Control and Fabrication Technology divisions recorded revenue growth of 74.1% and 21.8% respectively. This revenue growth has been driven by the completion of large projects in the Environmental Control division and market share growth for the Fabrication Technology division. The Fans and Heat Exchangers division saw a decline in revenue of 1%; this division has seen the bulk of the impact of the political and economic uncertainty in South Africa impacting the spending and pricing decisions of customers.

OPERATING PROFIT

Operating profit of R316.2 million is a 27.7% improvement from R247.6 million reported in 2016.

The Environmental Control division moved to an operating profit of R51.9 million from an operating loss of R12.7 million in the previous period, improved project execution has resulted in an operating profit margin of 16.7% in the period.

The Fans and Heat Exchangers division's operating profit decreased by 2.9% to R275.7 million (2016: R283.9 million), a decline in operating profit margin from 21.2% to 20.8%. The decline resulted from pricing pressure partly mitigated by a reduction in certain project liabilities of R28 million.

Operating profit margin for the Fabrication Technology division has improved as the division moves towards volume expectations.

Central operations had a decrease in costs to R15.8 million as the management team transitions to a local management team.

NET FINANCE INCOME

The net finance income of R77.4 million (2016: R55.5 million) was due to higher cash balances being held by the Group during 2017 when compared to the prior year.

INCOME TAX

The Group has a good record of managing its taxation affairs and provides for income tax at the standard rate of 28%. The Group's effective tax rate is 28.8% (2016: 27.9%) for the 2017 year driven higher by non-deductible permanent differences. The full tax reconciliation is shown in the taxation note of the integrated annual report. An amount of R14.1 million due by the revenue authorities was received in January 2018.

STATEMENT OF FINANCIAL POSITION

Rm	2017	2016	% change
Non-current assets	**178.4**	185.9	(4.0)
Current assets	**1 952.1**	1 675.1	16.5
Total assets	**2 130.5**	1 861.0	14.5
Equity	**1 533.2**	1 254.9	22.2
Non-current liabilities	**78.4**	102.1	(23.2)
Current liabilities	**518.9**	504.0	3.0
Total equity and liabilities	**2 130.5**	1 861.0	14.5

ASSETS

Assets employed in the Group increased 14.5% from R1 861.0 million to R2 130.5 million. The major changes during 2017 have been a further increase in the business' cash and cash equivalents balance, which has increased to R1 176.4 million which is a 29.4% increase from the prior period with other movements in assets moving in relation to project activity and funding.

LIABILITIES

Liabilities decreased slightly to R597.3 million from R606.1 million in the prior year. The major change during 2017 has been an increase in trade and other payables relating to purchases on a large project in the last quarter of the year. All other liabilities moved in line with business activity and contract funding levels.

CASH AND CAPITAL MANAGEMENT

STATEMENT OF CASH FLOWS

Rm	**2017**	2016
Cash flow from operating activities		
Cash generated from operations	**330.0**	216.3
Interest paid	**(0.1)**	(0.1)
Income tax paid	**(117.0)**	(72.0)
Net cash generated from operating activities	**212.9**	144.2
Net cash generated from investing activities	**54.2**	34.9
Net cash used in financing activities	**—**	—
Net increase in cash and cash equivalents	**267.1**	179.1
Cash and cash equivalents at beginning of year	**909.3**	730.2
Cash and cash equivalents at end of year	**1 176.4**	909.3

Howden's continuing focus on sustainable working capital management and operating profit performance has resulted in a satisfactory cash flow performance in 2017. Cash generated from operations for the year was R330.0 million and cash and cash equivalents are R1 176.4 million (2016: R909.3 million).

Capital expenditure was R12.4 million (2016: R10.7 million). During 2017 the business has focused its capital expenditure on the maintenance of existing facility and equipment and key capital expenditure to support the aftermarket business. There were no major capital expenditure items required during the year.

The board of directors continue to consider options for capital allocation. With consideration for economic volatility and changes in the political landscape within South Africa, at the closing of the 2017 financial year no final decision had been taken hence there have been no financial impact in the period.

DIVIDEND

The directors have resolved not to declare a dividend.

CONCLUSION

The Company remains focused on its strategic initiatives with key focus areas of strengthening the foundation, growing organically and looking at acquisition opportunities. The Company is continuing to focus on its growth aspirations with a focus on opportunities both within South Africa and outside of South Africa.

The Howden Africa business model as in prior years continues to derive sustainable profits and margins from providing well-developed and trusted engineering solutions to a customer base that demands integrity and innovation however pricing and regulatory pressures from customers remain challenging.

As the Company is debt-free with cash reserves the business has the resilience to cover short term funding requirements, it is also well placed to take advantage of opportunities that present themselves in the future.

The finance team across the Group has maintained a high standard of reporting to our stakeholders, and I thank them for their dedication, commitment and support during the 2017 financial period.

Marinella Vigouroux
Chief Financial Officer

28 March 2018

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF HOWDEN AFRICA HOLDINGS LIMITED

Report on the Audit of the Consolidated and Separate Financial Statements

OPINION

We have audited the consolidated and separate financial statements of Howden Africa Holdings Limited and its subsidiaries (the group) set out on pages 64 to 103, which comprise the consolidated and separate statement of financial position as at 31 December 2017, and the consolidated and separate statement of profit or loss and other comprehensive income, the consolidated and separate statement of changes in equity and the consolidated and separate statement of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the group as at 31 December 2017, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated and separate Financial section of our report.

We are independent of the Group in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code), the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA code) and other independence requirements applicable to performing audits of Howden Africa Holdings Limited and its subsidiaries. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code, IESBA Code, and in accordance with other ethical requirements applicable to performing the audit of Howden Africa Holdings Limited and its subsidiaries. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT

REVENUE RECOGNITION
We focused on the recognition of revenue as it requires estimates and judgements to be made by management in determining the amount of revenue to be recognised on long-term revenue contracts. The disclosures relating to critical accounting estimates and assumptions are included in Note 4 to the Annual Financial Statements.
Both the Fans and Heat Exchangers and Environmental Control divisions operate long-term revenue construction contracts. The majority of the long-term revenue construction contracts range between 0 and five years. R402 million (23%) of the Group revenue of R1.742 billion relates to long-term revenue construction contracts.
The recognition of revenue is largely dependent on the estimation of the total contract costs and the stage of completion of each contract. The stage of completion is determined by management's engineering experts based on the proportion of contract costs incurred for work performed to date compared to the estimated total contract costs. Changes in the estimate of total contract costs or the inappropriate recording of costs around the year (and in particular the estimation around the cost to complete) could result in material amounts of revenue being recognised in the incorrect period. We spent additional audit effort validating cost to complete estimations given that each contract is unique in terms of both the contract terms and the nature of the item being constructed which therefore differs from year to year. Furthermore we have utilised an engineering specialist to assist us with the review of contract terms for a sample of contracts selected to support accounting assumptions made for those contracts. Therefore the changes in the specifics of the contacts in the current year increase the complexity and require specific audit attention.
There are a few repair and maintenance key contracts within the two divisions, which have straight line billing arrangements, whilst revenue is recognised only when work has been performed. The performance of work is dependent on repairs being requested by a client and therefore may not take place throughout the year as planned. Thus, the estimates of total work performed and total work to be performed changes annually as a result of actual data being accumulated and the differences between clients and contracts. Such specific data relates to the estimated gross margin on each contract and planned cost to complete. The estimation of the future work schedules therefore may have a significant impact on the amount of revenue to be recognised. This therefore requires increased audit attention.
The disclosures relating to revenue recognition and amounts due from and due to customers are included in Note 10 and 22 to the Annual Financial Statements.
	Our procedures included:
	○ Testing the calculation of stage of completion. As part of this test, we also:
	  ○ Agree and vouch the actual costs incurred and recorded against the contract for occurrence and accuracy;
	  ○ Assess the basis for determining the total contract cost; and
	  ○ Re-perform the percentage of completion calculation.
	○ Involving our engineering experts in testing the estimated total contract costs. This includes identifying any practical or legal matters which may affect the completion of the contracts.
	○ Agreeing that the revenue recognised is consistent with the calculated stage of completion.
	○ Vouching whether the work allocated to contracts has been carried out in the period in which the revenue has been recognised.
	○ Assessing the estimates of costs to complete and also assessing the historical accuracy of the estimates of contract costs through comparing current year actual to prior year estimates.
	○ Examining any loss-making contracts to evaluate the level of provisioning required and also assessing the actual profit or loss achieved on contracts which were completed in the year compared to the forecast position in the prior year to identify any anomalies.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate as required by the Companies Act of South Africa, which we obtained prior to the date of this report, and the annual report, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Ernst and Young Inc. has been the auditor of Howden Africa Holdings Limited for six years.

Ernst & Young Inc.

Cornelius Els
Director

Registered Auditor
28 March 2018

DIRECTORS' REPORT

The directors' report forms part of the audited financial statements of the Company and the Group for the year ended 31 December 2017.

NATURE OF THE BUSINESS

The main activities of the Group are the design, manufacture and marketing of specialised air and gas-handling solutions to a wide range of industries and Howden is a preferred distributor of ESAB welding and cutting consumables.

The Group's principal segments include:

- Fans and Heat Exchangers
- Environmental Control
- Fabrication Technology

Major industries supplied include power generation, petrochemical, mining, construction, refrigeration, water treatment and general industry.

BUSINESS REVIEW

Financial overview

The Group's earnings per share has increased by 28.3% to 426.38 cents from 332.31 cents in 2016. This is attributable to improved operating profit margin of 18.1%, a 27.7% rand increase from 2016, and increase of 39.5% in finance income on excess cash.

Orders

Orders received during 2017 have increased to R1 719.7 million an increase of 9.3% compared to the corresponding period in 2016 (2016: R 1 572.7 million). The closing order book for 2017 has fallen to R711.8 million (2016: R770.4 million) as large projects are completed in the year. The aftermarket order book has increased by 4.0% resulting from retrofit orders received in the 2017 period. New build order book has reduced 23.8% as a large projects have been completed in the year.

Environmental Control division order intake reduced by 19.9% compared to the previous year at R192.1 million compared to R239.9 million in 2016. The division continues to have a large opportunity list.

Fans and Heat Exchangers division orders received during 2017 have increased by 14.3% to R1 415.2 million compared to the corresponding period (2016: R1 238.3 million). The increase has been driven by new build activity in areas outside of South Africa, retrofit projects and maintenance agreement signed in the period. Within this division we are starting to see recovery in the mining and other industries across the border with subdued spending from customers within South Africa.

The new Fabrication Technology division order intake for 2017 is R112.4 million with R106.1 million of this converted into revenue in the period. This business has not increased market share as expected in the period but the view is that the business will grow in the coming year.

FINANCIAL PERFORMANCE

Revenue of R1 743.0 million and operating profit of R316.2 million are both ahead the equivalent period in 2016 of R1 604.5 million and R247.6 million respectively.

The Environmental and Fabrication Technology division recorded revenue and operating profit growth. This growth has been driven by the completion of large projects in the Environmental Control division and market share growth for the Fabrication division.

The Fan and Heat Exchangers division saw a decline in revenue and operating profit as this division has seen the bulk of the impact of the political and economic uncertainty in South Africa impacting the spending and pricing decisions of customers.

Central operations had a decrease in costs to R15.8 million as the management team transitions to a local management team.

Segment analysis

A segment analysis of orders received, revenue and operating profit is set out on note 5 of the annual financial statements.

ORDER BOOK ANALYSIS

Rm	**2017**	2016	% change
Orders received	**1 719.7**	1 572.7	9.3
— New build	**511.1**	439.7	16.2
— Aftermarket	**1 208.6**	1 133.0	6.7
Order book	**711.8**	770.4	(7.6)
— New build	**245.3**	321.9	(23.8)
— Aftermarket	**466.5**	448.5	4.0

OTHER MATTERS

Share capital

Details of the Company's share capital, its holding company and its shareholders are given in note 18 to the financial statements.

Directorate

The names of the directors, secretary and auditors are listed on page 40 and 110 of the report.

Directors' interests

As at 31 December 2017 the directors and their associates hold no interest in the Company.

At the date of this report, there had been no changes to these shareholdings.

Subsidiary companies

A list of the Company's subsidiaries and related interests appears in note 8 of the financial statements.

Management by third parties

No business of the Company or its subsidiaries was managed by a third person or company during the financial year, except for managerial services the Company provides to its subsidiaries.

SUBSEQUENT EVENTS

None were identified.

DIVIDEND

The directors have resolved not to declare a dividend.

BASIS OF PREPARATION

These financial statements on pages 64 to 103 set out fully the financial position, results of operations and cash flows of the Group for the financial year ended 31 December 2017.

AUDITORS

The board of directors recommend that Ernst & Young Inc. be reappointed as auditors of the Company and the Group in terms of the resolution to be proposed at the annual general meeting in accordance with section 270(2) of the Companies Act.

For and on behalf of the board.

W Thomson
Chief Executive Officer

28 March 2018

STATEMENT OF FINANCIAL POSITION

as at 31 December 2017

		Consolidated		Company	
R'000	Note	**2017**	2016	**2017**	2016
ASSETS					
Non-current assets					
Property, plant and equipment	6	**90 485**	92 152	**109**	142
Intangible assets	7	**42 620**	44 556	**18 189**	19 845
Investment in subsidiaries	8	**—**	—	**60 001**	60 001
Deferred tax assets	9	**21 069**	18 132	**—**	—
Amounts due from customers for contract work	10	**85**	2 195	**—**	—
Trade and other receivables	11	**7 073**	11 411	**—**	—
Pension fund plan surplus	13	**17 071**	17 485	**17 071**	17 485
		178 403	185 931	**95 370**	97 473
Current assets					
Inventories	16	**337 065**	332 166	**—**	—
Trade and other receivables	11	**326 947**	351 195	**9 912**	34 368
Loans receivable	12	**25 625**	16 050	**—**	—
Amounts due from customers for contract work	10	**62 804**	34 810	**—**	—
Other financial assets	14	**—**	5	**—**	—
Current income tax asset	17	**23 259**	31 542	**—**	—
Cash and cash equivalents	15	**1 176 421**	909 341	**932 697**	600 566
		1 952 121	1 675 109	**942 609**	634 934
Total assets		**2 130 524**	1 861 040	**1 037 979**	732 407
EQUITY					
Share capital	18	**657**	657	**657**	657
Retained earnings and other reserves		**1 532 503**	1 254 255	**1 012 031**	706 592
Total equity		**1 533 160**	1 254 912	**1 012 688**	707 249
LIABILITIES					
Non-current liabilities					
Deferred tax liabilities	9	**5 738**	3 069	**3 676**	3 940
Amounts due to customers for contract work	10	**52 950**	79 649	**—**	—
Government grants	20	**6 819**	7 706	**—**	—
Provisions	21	**12 956**	11 642	**—**	—
		78 463	102 066	**3 676**	3 940
Current liabilities					
Trade and other payables	19	**466 281**	416 019	**21 053**	16 283
Amounts due to customers for contract work	10	**35 482**	53 890	**—**	—
Current income tax liabilities	17	**562**	13 123	**562**	4 935
Government grants	20	**906**	915	**—**	—
Other financial liabilities	14	**4 677**	1 815	**—**	—
Provisions	21	**10 993**	18 300	**—**	—
		518 901	504 062	**21 615**	21 218
Total liabilities		**597 364**	606 128	**25 291**	25 158
Total equity and liabilities		**2 130 524**	1 861 040	**1 037 979**	732 407

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2017

		Consolidated		Company	
R'000	Note	**2017**	2016	**2017**	2016
Revenue	22	**1 742 950**	1 604 535	**387 880**	111 890
Cost of sales		**(1 239 623)**	(1 176 761)	**—**	—
Gross profit		**503 327**	427 774	**387 880**	111 890
Distribution costs		**(60 459)**	(58 546)	**—**	—
Administrative expenses		**(127 177)**	(123 827)	**(56 205)**	(59 449)
Other income		**468**	2 210	**—**	—
Operating profit	23	**316 159**	247 611	**331 675**	52 441
Investment income	24	**77 494**	55 566	**1 253**	1 576
Finance costs		**(145)**	(72)	**(16)**	(1)
Profit before income tax		**393 508**	303 105	**332 912**	54 016
Income tax expense	25	**(113 252)**	(84 684)	**(27 473)**	(15 613)
Profit for the year		**280 256**	218 421	**305 439**	38 403
Other comprehensive income:					
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:					
Cash flow hedges:					
Reclassification during the year to profit or loss		**94**	262	**—**	—
Net loss during the year of the not yet matured contracts		**(2 883)**	(2 231)	**—**	—
Tax impact of cash flow hedges		**781**	551	**—**	—
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		**(2 008)**	(1 418)	**—**	—
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:					
Pension fund plan loss	13	**—**	(1 803)	**—**	(1 803)
Tax impact of pension fund plan loss		**—**	505	**—**	505
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods		**—**	(1 298)	**—**	(1 298)
Other comprehensive loss for the year, net of tax		**(2 008)**	(2 716)	**—**	(1 298)
Total comprehensive income for the year		**278 248**	215 705	**305 439**	37 105
Earnings per ordinary share — basic and diluted (cents)	26	**426.38**	332.31		

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

R'000	Share capital	Retained earnings	Pension fund plan deficit	Cash flow hedge reserve	Total
CONSOLIDATED					
Balance at 1 January 2016	657	1 042 041	(3 739)	248	1 039 207
Comprehensive income for the year	—	218 421	(1 298)	(1 418)	215 705
Balance at 31 December 2016	657	1 260 462	(5 037)	(1 170)	1 254 912
Balance at 1 January 2017	**657**	**1 260 462**	**(5 037)**	**(1 170)**	**1 254 912**
Comprehensive income for the year	**—**	**280 256**	**—**	**(2 008)**	**278 248**
Balance at 31 December 2017	**657**	**1 540 718**	**(5 037)**	**(3 178)**	**1 533 160**
COMPANY					
Balance at 1 January 2016	657	673 226	(3 739)	—	670 144
Comprehensive income for the year	—	38 403	(1 298)	—	37 105
Balance at 31 December 2016	657	711 629	(5 037)	—	707 249
Balance at 1 January 2017	**657**	**711 629**	**(5 037)**	**—**	**707 249**
Comprehensive income for the year	**—**	**305 439**	**—**	**—**	**305 439**
Balance at 31 December 2017	**657**	**1 017 068**	**(5 037)**	**—**	**1 012 688**

STATEMENT OF CASH FLOWS

for the year ended 31 December 2017

		Consolidated		Company	
R'000	Note	**2017**	2016	**2017**	2016
Cash flow from operating activities					
Cash generated/(utilised) from operations	27	**330 019**	216 297	**59 977**	(8 516)
Interest paid		**(145)**	(72)	**(16)**	(1)
Income tax paid	17	**(117 017)**	(71 975)	**(32 110)**	(10 403)
Net cash generated/(utilised) from operating activities		**212 857**	144 250	**27 851**	(18 920)
Cash flow from investing activities					
Dividend received		**—**	—	**250 000**	—
Interest received	22, 24	**76 241**	53 990	**54 280**	40 313
Loans issued	12	**(9 575)**	(8 550)	**—**	—
Purchases of property, plant and equipment*	6	**(12 443)**	(10 275)	**—**	—
Purchases of intangible assets	7	**—**	(375)	**—**	—
Proceeds from disposal of property, plant and equipment	28	**—**	111	**—**	—
Net cash generated from investing activities		**54 223**	34 901	**304 280**	40 313
Net increase in cash and cash equivalents		**267 080**	179 151	**332 131**	21 393
Cash and cash equivalents at beginning of year		**909 341**	730 190	**600 566**	579 173
Cash and cash equivalents at end of year	15	**1 176 421**	909 341	**932 697**	600 566

* The Purchases of property, plant and equipment relates to the renovations and improvements of the current buildings and machinery to maintain production capacity. Refer to note 6.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2017

1. GENERAL INFORMATION

The consolidated annual financial statements of Howden Africa Holdings Limited and its subsidiaries (collectively, the Group), were authorised for issue by the board of directors on 28 March 2018.

Howden Africa Holdings Limited (HAHL) and its subsidiaries design, manufacture and market specialised air and gas-handling solutions to a wide range of industries. The Group has manufacturing plants in Johannesburg and Port Elizabeth and sells its products mainly in South Africa. The major industries it supplies are power generation, petrochemical, mining, agriculture, construction, refrigeration, water treatment, transportation and general industry.

Howden is also a distributor of ESAB welding and cutting equipment and consumables.

2. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Group consolidated annual financial statements are set out below. The Group policies have been consistently applied to all the years presented. The Group annual financial statements incorporate the annual financial statements of the Company (Howden Africa Holdings Limited) and the entities it controls as at 31 December 2017, using consistent accounting policies at a consolidated and separate company level, where applicable.

2.1 BASIS OF PREPARATION

The Group and Company annual financial statements of Howden Africa Holdings Limited have been prepared in accordance with International Financial Reporting Standards (IFRS), the South African Companies Act 71 of 2008, the JSE Listings Requirements and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee. The consolidated annual financial statements are prepared on the historical cost basis except for certain financial assets and financial liabilities (including derivative instruments) measured at fair value through profit or loss.

The preparation of annual financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated annual financial statements are disclosed in note 4.

New and amended standards and interpretations IAS 8.28

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2017.

Although these new standards and amendments applied for the first time in 2017, they did not have a material impact on the annual consolidated financial statements of the Group.

- **Amendments to IAS 7:** Statement of Cash Flows — Disclosure Initiative — requires disclosures that enable users to evaluate changes in liabilities arising from financing activities.
- **Amendments to IAS 12:** Recognition of Deferred Tax Assets for Unrealised Losses

Annual Improvements 2014 — 2016 cycle

These improvements include:

- **IFRS 12:** The entity need not provide summarised financial information for interest in subsidiaries, associates and joint ventures that are classified (or included in a disposal group that is classified) as held for sale.

Impact of standards and interpretations not yet adopted

At the reporting date, the following new accounting standards were in issue but not yet effective:

	Effective for annual periods commencing on or after
IFRIC 22 Foreign Currency Transactions and Advance Consideration — provides guidance for determining the date of transaction in a foreign currency transaction that includes consideration denominated in a foreign currency and for which a non-monetary prepayment asset or deferred income liability is recognised.	1 January 2018
Amendments to IFRS10 and IAS28 — Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.	To be confirmed
Amendment to IAS40 — Transfers of Investment Properties.	1 January 2018
Amendments to IFRS 2 Share-based Payment — Classification Measurement of Share-based Payment Transactions — amends IFRS 2 to clarify accounting for cash-settled share-based payments that include a performance condition, classification of share-based payments with net settlement features and accounting for modifications.	1 January 2018
Annual Improvements to IFRS 2014-2016 Cycle — makes the following amendments: IFRS 1 — removing short-term exemptions and IAS 28 — clarifying that the exemption from equity accounting can be applied on an investment-by-investment basis.	1 January 2018

The above amendments are not expected to have a material effect for the Group.

2. ACCOUNTING POLICIES (CONTINUED)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 "Revenue from Contracts with Customers" was issued in May 2015; It is effective for accounting periods beginning on or before 1 January 2018. The Group will adopt the standard on 1 January 2018.

IFRS 15 will require Howden to identify deliverables in contracts with customers that qualify as "performance obligations". The transaction price receivable from customers must be allocated between the Company's performance obligations under the contracts on a relative stand-alone selling price basis.

The Company has assessed the impact of these and other accounting changes that will arise under IFRS 15. Our assessment covered the following: impact on POC, point in time revenue recognition versus overtime revenue recognition, multiple arrangements, extended warranties, change orders, claims and LDs, combining contracts, pre-award work, cost to obtain contract, input versus output method, consignment arrangements and variable considerations. Different types of contracts with customers were analysed to identify performance obligations and transaction prices allocated to each performance obligation. The assessment identified services in multiple-arrangement contracts that requires a cumulative effect of R4.3m after tax impact to equity. The Group has elected to apply the full retrospective method in transition to IFRS15, with the following expedients:

- The Company has not reviewed contracts that begin and are completed within the same financial year;
- For completed contracts with a variable consideration the Company has used the transaction price at date contract was completed; and
- For all contracts prior to 1 January 2018, the Company has not disclosed the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the entity expects to recognise that amount as revenue (applies to disclosure review).

IFRS 16 Leases

IFRS 16 requires lessees to account for all leases under a single on balance sheet model in a similar way to finance leases under IAS 17. The standard includes two recognition exemptions for lessees — leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The standard is effective for annual periods beginning on or after 1 January 2019 and the Group will adopt the standard on the effective date. The new standard, in addition to bringing substantial new assets and liabilities onto a lessee's balance sheet, will have an impact on reported profit and performance measures such as EBITDA. It is likely that with the changed definition of leases there will be some additional contracts within the scope of the new standard, which will need to be considered by lessors as well as lessees, although lessees may be able to use the limited exemptions which may permit some to remain accounted for as services. The Group is assessing the impact of this standard. A typical area where the standard will have a significant impact is vehicle leases.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018 and the Group will adopt the standard on the effective date, with early application permitted. Retrospective application will be adopted with no comparative information provided. For hedge accounting, prospective application will be adopted.

An assessment of the new expected credit loss requirement for financial assets has been performed and will result in no material change to impairment. New classification of financial assets will have no impact on the Group's classification. The alignment of hedge accounting with risk management activities of the Company will result in no material impact to the recognition and disclosure of hedging instruments.

2.2 BASIS OF CONSOLIDATION

The consolidated annual financial statements comprise the annual financial statements of the Company and its subsidiaries as at 31 December 2017.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

2. ACCOUNTING POLICIES (CONTINUED)

The annual financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

Inter-company transactions, balances and unrealised gains and dividends on transactions between companies are eliminated.

Investments in subsidiaries are accounted for by the Company at cost less impairment. Cost includes consideration transferred and direct attributable costs of investment.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised in either profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.3 SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Howden Executive Committee.

The operating results of each operating segment are separately monitored for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated annual financial statements.

The Group's operations mainly comprise specialised engineering products for air and gas solutions which can be differentiated into three main reportable segments, namely Fans and Heat Exchangers, Environmental Control and Fabrication Technology.

Revenue by geographic segment is allocated based on the country in which the customer is located. Total assets and capital expenditure by geographic segment are allocated based on where the assets are located.

2.4 FOREIGN CURRENCY TRANSLATION

(a) Functional and presentation currency

Items included in the annual financial statements for each of the Group's entities are measured using the currency of the primary economic environment in which that entity operates (the functional currency). The consolidated annual financial statements are presented in rand, which is the functional and presentation currency of Howden Africa Holdings Limited.

2. ACCOUNTING POLICIES (CONTINUED)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency of Group entities using the exchange rate prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains or losses resulting from the settlement of transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss finance income and costs.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of a gain or loss on change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in other comprehensive income, or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

2.5 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost less accumulated depreciation and impairments. Land and buildings comprise mainly factories and offices. The cost includes expenditure that is directly attributable to the acquisition of the items and borrowing costs for long-term construction projects if the recognition criteria are met.

Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss in the statements of comprehensive income during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method spreading the difference between cost and residual value over the estimated useful life as follows:

Buildings	50 years
Plant and equipment	2 to 10 years
Patterns and dies	3 years
Office furniture and equipment	3 to 10 years
Motor vehicles	4 years
IT equipment	3 to 5 years

The assets' residual values, methods of depreciation and useful lives are reviewed, and adjusted prospectively if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its recoverable amount.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the statements of comprehensive income when the asset is derecognised.

2.6 INTANGIBLE ASSETS

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition.

Goodwill on acquisitions of subsidiaries is included in intangible assets and is tested for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment or more frequently when there is an event that indicates potential impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains or losses on disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units (CGUs) for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose according to operating segments. Goodwill is tested for impairment on an annual basis; refer to impairment of non-financial assets below.

(ii) Trademarks

Trademarks acquired in a business combination are recognised at fair value at the acquisition date. Trademarks have a finite useful life and are carried at cost less accumulated amortisation and impairment, and calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives which is considered to be 25 years.

(iii) Computer software

Acquired computer software is capitalised on the basis of the costs incurred and subsequently recognised at cost less accumulated amortisation and impairment. The cost is amortised over the estimated useful life of the software, usually between three and five years.

2. ACCOUNTING POLICIES (CONTINUED)

2.7 IMPAIRMENT

(a) Non-financial assets

Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment losses are recognised as an expense immediately and are written off in the statements of comprehensive income.

The recoverable amount is the higher of an asset's fair value less costs of disposal or value in use. For the purpose of assessing impairment, the Group estimates the asset's or CGU's recoverable amount. A CGU is the lowest level for which separately identifiable cash flows can be determined.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is any indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or CGU in prior years. A reversal of an impairment loss is recognised as income immediately. Goodwill impairments are not reversed.

(b) Financial assets

Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or event) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statements of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as finance income in the statement of comprehensive income. Financial assets, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of comprehensive income.

2.8 FINANCIAL INSTRUMENTS

2.8.1 Financial assets

Initial recognition and measurement

The Group classifies its financial assets in the following categories: at fair value through profit or loss, or loans and receivables, as appropriate. The classification depends on the purpose for which the financial assets were acquired. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

2. ACCOUNTING POLICIES (CONTINUED)

Subsequent measurement

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading. Assets in this category are classified as current assets.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of comprehensive income.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determined payments that are not quoted in an active market. Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. They are included in the current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

The Group's loans and receivables are subsequently carried at amortised cost using the effective interest rate method, less impairment. The effective interest rate amortisation is included in finance income in profit or loss. The losses arising from impairment are recognised in profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement

Either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.8.2 Financial liabilities

Initial recognition and measurement

The Group classifies its financial liabilities in the following categories: at fair value through profit or loss, or loans and borrowings, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, inclusive of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, derivative financial instruments, bank overdrafts, loans and borrowings, and financial guarantee contracts.

Subsequent measurement

(a) Loans and borrowings

Borrowings are subsequently stated at amortised cost using the effective interest rate method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(b) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are subsequently measured at amortised cost using the effective interest rate method.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss in the statement of comprehensive income.

2. ACCOUNTING POLICIES (CONTINUED)

2.8.3 Fair value of financial instruments

The Group measures financial instruments, such as derivatives, as well as other financial assets and liabilities, at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the annual financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

2.9 Derivative financial instruments and hedging activities

Derivative financial instruments, principally forward foreign exchange contracts, are used as hedges in the financing and financial risk management of the Group and are initially measured at fair value on the date a derivative contract is entered into and subsequently remeasured at their fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Cash flow hedges

Foreign currency risk

Foreign exchange forward contracts measured at fair value through other comprehensive income are designated as hedging instruments in cash flow hedges of highly probable forecast transactions in foreign currencies.

While the Group also enters into other foreign exchange forward contracts with the intention of reducing the foreign exchange risk of expected sales and purchases, these other contracts are not designated in hedge relationships and are measured at fair value through profit or loss.

2.10 Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined using the average cost and FIFO basis. The cost of finished goods and work in progress comprise direct expenditure and attributable overheads based on normal operating capacity, excluding borrowing costs. The cost of raw material is the purchase cost determined on the FIFO basis. Net realisable value is the estimated selling price less all estimated costs of completion and costs necessary to make the sale.

Where necessary, provision is made for obsolete, slow-moving and defective inventory.

2.11 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income tax), is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, and are included in equity attributable to the Company's equity holders.

2. ACCOUNTING POLICIES (CONTINUED)

2.12 Provisions

Provisions for warranty and product liability are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in profit or loss net of any reimbursement. Provisions are not recognised for future operating losses. If the effect of discounting is material, provisions are determined by discounting the expected value of future cash flows at a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The increase in the provision due to passage of time is recognised as interest expense.

2.13 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss in the statement of comprehensive income, except to the extent that it relates to items recognised directly in other comprehensive income. In this case, the tax is also recognised in other comprehensive income.

The current income tax charge is calculated on the basis of tax laws enacted or substantively enacted at the report date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated annual financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit, nor loss. Currently and substantially enacted tax rates are used to determine deferred income tax.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax is not provided on temporary differences arising on subsidiaries where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future or where the remittance would not give rise to incremental tax liabilities or is otherwise not taxable. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.14 Employee benefits

(a) Pension and provident benefits

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The defined benefit plan is in the process of being wound up after settlement in 2015 and 2016 of pensioners and active employees respectively. Funding of the defined benefit plan ceased in March 2015.

The asset recognised in the statement of financial position in respect of defined benefit pension plans is the surplus that accrues to Howden as per the fund rules. The present value of the defined benefit obligation at the end of the reporting period relates to five pensioners who are fully insured. All active members of the defined benefit plan were transferred to the defined contribution plan effective 1 April 2015.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due.

Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after report date are discounted to present value.

2. ACCOUNTING POLICIES (CONTINUED)

(c) Performance bonus plans

The Group recognises a liability and an expense for performance bonuses, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(d) Long-service awards

The Group recognises a liability and an expense for long service, based on a formula that takes into account the length of service of all employees. The long-service award is paid at various stages of employment service and it is a contractual obligation. These obligations are valued annually by independent qualified actuaries and provided for under provisions.

2.15 CONSTRUCTION CONTRACTS

A construction contract is defined by IAS 11 as a contract specifically negotiated for the construction of an asset. The contract revenue comprises the initial agreed contract price plus any confirmed variations. Costs are those that are directly related to the contract. Where the outcome of the contract can be reliably estimated, revenue and costs are taken to profit or loss based on the percentage of completion method. The percentage of completion is determined by measuring the proportion of costs incurred for work performed to the total expected costs.

The profit attributable to the stage of completion represents the difference between the revenue and costs attributable to the stage of completion.

Where the outcome of the contract cannot be reliably estimated, revenue is taken to profit or loss based on the costs incurred that are deemed to be recoverable.

Where any contract review shows an expected loss on a contract, then this loss is recognised in profit or loss immediately.

Losses on contracts are recognised in the period in which they first become foreseeable. Contract losses are determined to be the amount by which estimated direct and indirect costs of the contract exceed the estimated total revenues that will be generated by the contract.

During the period until the percentage-of-completion calculation is completed, all contract costs are accumulated in contract work in progress. The costs of the contract attributable to the stage of contract completion are transferred to cost of sales.

Where the costs incurred plus recognised profits are greater than the sum of the recognised losses and progress billings, then this amount is shown in debtors as amounts due from customers for contract work.

Where the sum of recognised losses and progress billings is greater, then this amount is shown in creditors as amounts due to customers for contract work.

2.16 REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services and the value of work executed which can be reliably measured during the year in respect of long-term contracts.

Revenue is generated from air and gas-cooling technologies supplied to the coal, gold mining and power generation markets, together with dust extraction and gas treatment technologies offered from an environmental perspective.

Revenue is recorded net of value added tax, rebates and discounts, and after eliminating inter-group sales within the Group. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on the historical results, taking into consideration the type of customer, type of transaction and the specifics of each arrangement.

(a) Sales of goods

Revenue relates to the sale of goods which is recognised when the Group entities have fulfilled their contractual obligations to a customer and have obtained the right to receive consideration. This is usually on dispatch but is dependent upon the contractual terms that have been agreed with the customer.

(b) Sales of services

Revenue on the sale of services is based on the stage of completion of the of the transaction, determined on the proportion costs incurred to date, for work performed, to the total expected costs of the project.

(c) Dividend income

Dividend income is recognised when the Company's right to receive payment is established.

(d) Interest income

Interest income earned on financial assets at amortised cost is recognised in profit or loss as part of finance income using the effective interest rate method. The Group recognises interest income as a part of investment income. The Company is an investment holding company and recognises interest income as a part of revenue.

(e) Royalty income

Royalty income is recognised when the Group entities have fulfilled their contractual obligations to a customer and have obtained a right to receive consideration. The right to receive royalty income is dependent upon the contractual terms of the royalty agreement concluded. Royalty income is recognised in profit or loss as part of other income when the Group's right to receive payment is established. The Company recognises royalty income as a part of revenue as it is an investment holding company.

2. ACCOUNTING POLICIES (CONTINUED)

2.17 GOVERNMENT GRANTS

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life in a pattern of consumption of the benefit of the underlying asset by equal annual instalments.

2.18 LEASES

Leases in which a significant portion of the risks and rewards of ownership is retained by the lessor are classified as operating leases. Payments in respect of operating leases are recognised in profit or loss on a straight-line basis over the lease term.

Leasing agreements which transfer to the Group substantially all the benefits and risks of ownership of an asset are treated as finance leases. The assets are included in property, plant and equipment and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element charged to profit or loss so as to give a constant periodic rate of charge on the remaining balance outstanding at each accounting period. Assets held under finance leases are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

2.19 DIVIDEND DISTRIBUTION

Dividend distribution to the Company's shareholders is recognised as a liability in the period in which the dividends are approved by the Company's board of directors.

2.20 DIVIDEND WITHHOLDING TAX

Dividend withholding tax is payable at a rate enacted by law on dividends distributed to shareholders. This tax is not attributable to the Company paying the dividend, but is collected by the Company and paid to the tax authorities on behalf of the shareholder. Dividend withholding tax is included in dividend paid in the statement of changes in equity.

3. FINANCIAL RISK MANAGEMENT

3.1 FINANCIAL RISK FACTORS

The Group's activities expose it to a variety of financial risk: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk, liquidity risk and cash flow risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by a central treasury department (Colfax Group Treasury) under policies approved by the board of directors. Group Treasury identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The board provides written principles for overall foreign exchange risk, interest rate risk, and credit risk, use of derivative financial instruments and non-derivative financial instruments, and investing excess liquidity.

(a) Market risk

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar (USD), euro and the British pound sterling (GBP). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

Entities in the Group use forward contracts to manage their foreign exchange risk arising from future commercial transactions, recognised assets and liabilities. Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The Group manages the position by using external forward currency contracts.

The following assumptions have been in the preparation of the foreign currency sensitivity analysis:

- The sensitivity is based on possible changes in the US dollar, euro and GBP. The Group's exposure to foreign currency changes for all other currencies is not material
- The sensitivity calculation relates to significant foreign currency assets and liabilities on the statement of financial position as at 31 December 2017
- The calculation is based on the net exposure to those foreign currencies
- The sensitivity is based on the impact of a 10% currency movement

At 31 December 2017, if the currency had weakened by 10% against the US dollar with all other variables held constant, pre-tax profit would have been R5 012 860 lower, mainly as a result of foreign exchange gains on translation of US dollar-denominated receivables, payables and forward exchange contracts. If the currency were strengthened by the percentage indicated above there would be an equal and opposite impact on pre-tax profit.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

At 31 December 2017, if the currency had weakened by 10% against the GBP with all other variables held constant, pre-tax profit would have been R366 969 lower, mainly as a result of foreign exchange gains on translation of GBP-denominated receivables, payables and forward exchange contracts. If the currency were strengthened by the percentage indicated above there would be an equal and opposite impact on pre-tax profit.

At 31 December 2017, if the currency had weakened by 10% against the euro with all other variables held constant, pre-tax profit would have been R1 579 250 lower, mainly as a result of foreign exchange gains on translation of euro-denominated receivables, payables and forward exchange contracts. If the currency were strengthened by the percentage indicated above there would be an equal and opposite impact on pre-tax profit.

Cash flow and interest rate risk

Fluctuations in interest rates impact the value of short-term cash investments and financing activities, giving rise to interest rate risk. The Group's income and operating cash flows are affected by changes in the market interest rate. Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

In the ordinary course of business, the Company receives cash from its operations and is required to fund working capital and capital expenditure requirements. This cash is managed to ensure surplus funds are invested in a manner to achieve maximum returns while minimising risks.

The Group has analysed the effect of a rise/fall of 1% in the prime lending rate (refer to note 15).

Price risk

The Group is exposed to commodity price risk on steel. This risk is mitigated by escalation clauses that are built into major contracts for steel price variances.

(b) Credit risk

Potential concentrations of credit risk consist principally of cash investments, amounts due from customers and trade debtors. The Group only deposits cash surpluses with major banks of high quality and with financial institutions located in South Africa. Trade debtors consist of a large number of customers, spread across diverse industries and geographical areas. Credit evaluation is performed on the financial condition of the customers before granting credit. The ongoing creditworthiness of the debtors is assessed from time to time.

The Group has policies that limit the amount of credit exposure to any one financial institution. The Group has assessed the credit risk with regard to trade receivables with reference to third-party ratings to determine credit quality.

The Company's maximum exposure to credit risk is represented by the carrying values of its financial assets on the statement of financial position.

(c) Liquidity risk

The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

The maturity analyses of financial liabilities are as follows:

R'000	**2017**	2016
Due within one year		
Trade and other payables	**346 962**	278 342
Amounts due to customers for contract work	**35 482**	53 890
Forward exchange contracts	**4 677**	1 815
	387 121	334 047
Due within one to two years		
Amounts due to customers for contract work	**52 950**	79 649
	52 950	79 649

The Group's financial liabilities will be settled in the normal operating cycle of the business. For construction contracts, this would be greater than a year.

3.2 CAPITAL RISK MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios to support its business and maximise the shareholder's value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 2016.

4. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the annual financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It requires management to exercise judgement in the process of applying the Group's accounting policies. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements, are mainly the following:

4.1 JUDGEMENTS

Estimated impairment of goodwill

Goodwill is assessed for impairment at each reporting date. The recoverable amount of the relevant cash-generating units is determined based on value-in-use calculations. These calculations use cash flow projections per budget and strategic plan forecasts. These plans are revisited every year and are compiled after considering market conditions and the strategic positioning of the business units within the markets in which they operate.

Estimated impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value-in-use calculation is based on a discounted cash flow model. These calculations use cash flow projections per budgets and strategic plan forecasts. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

Deferred tax assets

The recoverability of deferred tax assets is based on the future profitability of the relevant entity and the ability to generate future taxable income. These calculations use budget and strategic plan forecasts of profitability to determine if sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised in the future.

4.2 ESTIMATES AND ASSUMPTIONS

Impairment of trade receivables

An allowance for impairment is raised when there is evidence of significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments. The allowance raised is based on management judgement, based on the factors mentioned and the expected recoverability of the amount due.

Revenue recognition

The Group uses the stage of completion, determined by our engineering experts, based on the proportion of contract costs incurred for work performed to date compared to the estimated total contract costs. Losses on contracts are recognised in the period in which the loss first becomes foreseeable. Contract losses are determined to be the amount by which estimated direct and indirect costs of the contract exceed the estimated total revenues that will be granted by the contract.

The Group provides repair and maintenance on key contracts using straight line billing arrangements and the associated revenue is recognised only when work has been performed. The performance of work is dependent on repairs being requested by a client and therefore may not take place throughout the year as planned. Thus, the estimates of total work performed and total work to be performed changes annually as a result of actual data being accumulated and the differences between clients and contracts.

Warranties

The Group provides in full for claims by customers in respect of defects in goods supplied or work performed when such claims are ascertainable. In addition, certain long-term contract provisions are made for warranties calculated on an appropriate percentage of the contract price. The estimation of the percentage is based on historical information and management judgement, based on experience of previous warranty claims on the product type.

Estimation of useful lives of property, plant and equipment and intangible assets

The asset's residual values and useful lives are reviewed annually and adjusted if appropriate. The useful lives are determined based on the expected period over which the asset will be used and benefits received by the Group from the use of the asset. Residual values are determined by obtaining observable market prices for the asset with the same age that the asset would be at the end of its useful life.

Closed jobs accrual

Estimates are made of commitments following the completion of construction contracts based on management's judgement of the cost of these commitments where a contractual obligation exists. These are recorded as closed job accruals.

All estimates and underlying assumptions are based on historical experience and various other factors that management believes are reasonable under the circumstances. The results of these estimates form the basis of judgements about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and any affected future periods.

5. SEGMENT INFORMATION

The Group is organised on a world-wide basis into segments based on its products and services:

(1) Fans and Heat Exchangers — focus on air and gas cooling technologies within the coal/gold mining and power generation markets.
(2) Environmental Control — focus on dust extraction and gas treatment technologies from an environmental perspective.
(3) Fabrication Technology — focus on the supply of welding equipment and consumables.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Committee. It must be noted that CODM changed from the board of directors to the Executive Committee and the change has no impact on the identification of reportable segments.

The Executive Committee assesses the performance of operating segments based on operating profit.

Goodwill of R23 717 000 (2016: R23 717 000) is allocated to Environmental Control division (refer to note 7).

R'000	External revenue	Operating profit/(loss)	Assets	Liabilities	Intersegmental revenue
For the year ended 31 December 2017					
Fans and Heat Exchangers	**1 325 917**	**275 654**	**751 933**	**439 404**	**35 482**
Environmental Control	**310 890**	**51 930**	**241 340**	**86 224**	**28 456**
Fabrication Technology	**106 143**	**4 349**	**99 272**	**46 445**	**1 567**
	1 742 950	**331 933**	**1 092 545**	**572 073**	**65 505**
Central operations	**—**	**(15 774)**	**1 038 111**	**25 423**	**—**
	1 742 950	**316 159**	**2 130 656**	**597 496**	**65 505**

R'000	Capital expenditure	Depreciation	Amortisation
Fans and Heat Exchangers	**10 813**	**13 276**	**280**
Environmental Control	**342**	**41**	**—**
Fabrication Technology	**1 288**	**629**	**—**
	12 443	**13 946**	**280**
Central operations	**—**	**33**	**1 656**
	12 443	**13 979**	**1 936**

R'000	External revenue	Operating profit/(loss)	Assets	Liabilities	Intersegmental revenue
For the year ended 31 December 2016					
Fans and Heat Exchangers	1 338 783	283 942	848 304	462 761	26 115
Environmental Control	178 610	(12 744)	166 437	54 908	29 690
Fabrication Technology	87 142	1 257	113 892	63 301	2 783
	1 604 535	272 455	1 128 633	580 970	58 588
Central operations	—	(24 844)	732 407	25 158	—
	1 604 535	247 611	1 861 040	606 128	58 588

R'000	Capital expenditure	Depreciation	Amortisation
Fans and Heat Exchangers	9 404	13 309	319
Environmental Control	—	26	—
Fabrication Technology	1 246	689	—
	10 650	14 024	319
Central operations	—	87	1 656
	10 650	14 111	1 975

5. SEGMENT INFORMATION (CONTINUED)

R'000	2017	2016
Total reportable segments' operating profit	**316 159**	247 611
Net finance income	**77 349**	55 494
Profit before income tax	**393 508**	303 105
Income tax expense	**(113 252)**	(84 684)
Profit for the year	**280 256**	218 421

Geographical areas

The Group operates world-wide but primarily in seven main geographical locations:

	Revenue	
R'000	**2017**	2016
Revenue by location of customer		
South Africa*	**1 455 110**	1 451 613
United Kingdom and Europe	**219**	115
North America	**1 271**	8 857
South America	**—**	439
Rest of Africa	**68 089**	82 741
Middle East and Asia	**115 424**	10 286
Australasia	**102 837**	50 484
	1 742 950	1 604 535

* Sales to a single South African customer comprise R865 million (2016: R908 million) of total revenue, spread across all segments.

R'000	Non-current assets	Current assets	Total
Assets by location			
For the year ended 31 December 2017			
South Africa	**178 403**	**1 912 184**	**2 090 587**
United Kingdom and Europe	**—**	**604**	**604**
Rest of Africa	**—**	**110**	**110**
Middle East and Asia	**—**	**679**	**679**
Australasia	**—**	**38 676**	**38 676**
	178 403	**1 952 253**	**2 130 656**
For the year ended 31 December 2016			
South Africa	185 931	1 622 435	1 808 366
United Kingdom and Europe	—	273	273
North America	—	3 197	3 197
South America	—	378	378
Rest of Africa	—	822	822
Middle East	—	2 010	2 010
Australasia	—	45 994	45 994
	185 931	1 675 109	1 861 040

5. SEGMENT INFORMATION (CONTINUED)

R'000	**2017**	2016
Capital expenditure**		
South Africa	**12 443**	10 650
	12 443	10 650

** Capital expenditure consists of additions of property, equipment, vehicles and intangible assets.

6. PROPERTY, PLANT AND EQUIPMENT

R'000	Freehold land and buildings	Plant, equipment and vehicles	Total
CONSOLIDATED			
At 1 January 2016			
Cost	47 077	122 878	169 955
Accumulated depreciation and impairment	(12 625)	(61 231)	(73 856)
Net book amount	34 452	61 647	96 099
Year ended 31 December 2016			
Opening net book amount	34 452	61 647	96 099
Additions	362	9 913	10 275
Disposals	—	(111)	(111)
Depreciation	(2 500)	(11 611)	(14 111)
Closing net book amount	32 314	59 838	92 152
At 31 December 2016			
Cost	47 439	132 352	179 791
Accumulated depreciation and impairment	(15 125)	(72 514)	(87 639)
Net book amount	32 314	59 838	92 152
Year ended 31 December 2017			
Opening net book amount	**32 314**	**59 838**	**92 152**
Additions	**2 274**	**10 169**	**12 443**
Write off	**—**	**(131)**	**(131)**
Depreciation	**(2 288)**	**(11 691)**	**(13 979)**
Closing net book amount	**32 300**	**58 185**	**90 485**
At 31 December 2017			
Cost	**49 713**	**141 705**	**191 418**
Accumulated depreciation and impairment	**(17 413)**	**(83 520)**	**(100 933)**
Net book amount	**32 300**	**58 185**	**90 485**

Details in respect of immovable property are set out in a register which may be inspected at the Company's registered office during normal business hours.

Depreciation of R7 723 000 (2016: R7 485 000) is included under cost of sales.

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

R'000	Freehold land and buildings	Plant, equipment and vehicles	Total
COMPANY			
At 1 January 2016			
Cost	—	631	631
Accumulated depreciation and impairment	—	(384)	(384)
Net book amount	—	247	247
Year ended 31 December 2016			
Opening net book amount	—	247	247
Disposal	—	(18)	(18)
Depreciation	—	(87)	(87)
Closing net book amount	—	142	142
At 31 December 2016			
Cost	—	591	591
Accumulated depreciation and impairment	—	(449)	(449)
Net book amount	—	142	142
Year ended 31 December 2017			
Opening net book amount	**—**	**142**	**142**
Depreciation	**—**	**(33)**	**(33)**
Closing net book amount	**—**	**109**	**109**
At 31 December 2017			
Cost	**—**	**591**	**591**
Accumulated depreciation and impairment	**—**	**(482)**	**(482)**
Net book amount	**—**	**109**	**109**

CAPITAL COMMITMENTS

	Consolidated		Company	
R'000	**2017**	2016	**2017**	2016
Authorised and contracted	**38**	774	**25**	—

7. INTANGIBLE ASSETS

R'000	Goodwill	Trademarks	Software	Total
CONSOLIDATED				
At 1 January 2016				
Cost	23 717	41 366	4 676	69 759
Accumulated amortisation	—	(19 865)	(3 703)	(23 568)
Net book amount	23 717	21 501	973	46 191
Year ended 31 December 2016				
Opening net book amount	23 717	21 501	973	46 191
Additions	—	—	375	375
Write off	—	—	(35)	(35)
Amortisation charge	—	(1 656)	(319)	(1 975)
Closing net book amount	23 717	19 845	994	44 556
At 31 December 2016				
Cost	23 717	41 366	4 380	69 463
Accumulated amortisation and impairment	—	(21 521)	(3 386)	(24 907)
Net book amount	23 717	19 845	994	44 556
Year ended 31 December 2017				
Opening net book amount	**23 717**	**19 845**	**994**	**44 556**
Amortisation charge	**—**	**(1 656)**	**(280)**	**(1 936)**
Closing net book amount	**23 717**	**18 189**	**714**	**42 620**
At 31 December 2017				
Cost	**23 717**	**41 366**	**4 380**	**69 463**
Accumulated amortisation and impairment	**—**	**(23 177)**	**(3 666)**	**(26 843)**
Net book amount	**23 717**	**18 189**	**714**	**42 620**

The trademarks are based on the Howden, Safanco and Donkin names. This asset is to be amortised over its economic useful life which is 25 years, based on the life of the assets to which it attaches. The remaining amortisation period is 11 years.

Goodwill of R23 717 000 arose on purchase of the shares in the fabric filter business included in the Howden Projects division of James Howden Holdings (Pty) Limited and represents the difference between the purchase price of R26 320 000 and the fair value of net assets acquired of R2 603 000. The goodwill has been allocated to the Environmental Control business segment.

The Group performed its annual Impairment calculation. The projected pre-tax cash flow used in the impairment calculation is based on the financial budget and strategic plan approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rate of 5% per year. The pre-tax discount rate used was 12.05% using the R186 bond yield of 8.60% as at 31 December 2017.

No reasonable change in any of the key assumptions will result in the recoverable amount of goodwill to be less than the carrying amount.

COMPANY

Company intangible assets comprise all trademarks detailed in the consolidated trademarks listed above. The Company does not have any other intangible assets. All trademarks listed in the consolidated trademarks listing are held by the Company.

8. INVESTMENT IN SUBSIDIARIES

	Consolidated		Company	
R'000	**2017**	2016	**2017**	2016
Shares at cost less amounts written off	**—**	—	**60 001**	60 001

	Details of holding company's interest			
	Issued ordinary share capital	Proportion held	Shares at cost or valuation less amounts written off	
	Dec 2017 **R**	%	**2017** **R'000**	2016 R'000
INTEREST IN SUBSIDIARY COMPANIES				
Subsidiaries of Howden Africa Holdings Limited				
Incorporated in South Africa				
Howden Africa Proprietary Limited	**1 010**	**100%**	**60 001**	60 001
			60 001	60 001
Subsidiaries of Howden Africa (Pty) Limited				
Incorporated in South Africa				
James Howden Holdings Proprietary Limited	**1 406 488**	**100%**		
Howden Donkin Proprietary Limited	**10 000**	**100%**		

Total Indebtedness

Amounts owing by Group companies: Please refer to note 32.

Normal capital loans to or from subsidiaries are unsecured and not subject to any fixed terms of repayment. No interest is charged on capital loans to or from subsidiaries at present but these arrangements are subject to revision from time to time.

Guarantees

Refer to note 30 for guarantees issued by the Group and Company.

9. DEFERRED TAX

R'000	Consolidated 2017	Consolidated 2016	Company 2017	Company 2016
DEFERRED TAX ASSETS				
Balance at beginning of year	**18 132**	24 452	**—**	—
Charge for the year — current year	**2 416**	(5 834)	**—**	—
Cash flow hedge — charge to equity	**521**	(486)	**—**	—
	21 069	18 132	**—**	—
Deferred tax assets comprises				
Accelerated depreciation for tax purposes	**(14 436)**	(15 868)	**—**	—
Assessed loss	**218**	—	**—**	—
Cash flow hedge	**970**	11	**—**	—
Provisions	**12 257**	20 371	**—**	—
Working capital*	**22 060**	13 618	**—**	—
	21 069	18 132	**—**	—
DEFERRED TAX LIABILITIES				
Balance at beginning of year	**3 069**	9 272	**3 940**	4 336
Charge for the year — current year	**2 929**	(4 660)	**(264)**	109
Pension fund plan surplus — charge to equity	**—**	(505)	**—**	(505)
Cash flow hedge — charge to equity	**(260)**	(1 038)	**—**	—
	5 738	3 069	**3 676**	3 940
Deferred tax liabilities comprises				
Accelerated depreciation for tax purposes	**415**	432	**14**	34
Pension fund plan surplus	**4 780**	4 896	**4 780**	4 896
Provisions	**(5 301)**	(1 106)	**—**	—
Working capital*	**6 109**	(711)	**(1 118)**	(990)
Cash flow hedge	**(265)**	(442)	**—**	—
	5 738	3 069	**3 676**	3 940

* Working capital includes income received in advance, s24C allowance and other temporal differences.

10. CONSTRUCTION CONTRACTS

R'000	Consolidated 2017	Consolidated 2016	Company 2017	Company 2016
Contract revenue recognised in the year	**406 292**	267 955	**—**	—
Contract costs recognised in the year	**(304 257)**	(193 100)	**—**	—
Recognised profits less recognised losses in the year	**102 035**	74 855	**—**	—
For contracts in progress at the year end:				
Contract costs incurred and recognised profits (less losses) to date	**411 090**	554 328	**—**	—
Less: progress billings for work performed	**(436 633)**	(650 862)	**—**	—
Net amount due to customers for contract work	**(25 543)**	(96 534)	**—**	—
Amounts due from customers for contract work (non-current)	**85**	2 195	**—**	—
Amounts due from customers for contract work (current)	**62 804**	34 810	**—**	—
Amounts due to customers for contract work (non-current)	**(52 950)**	(79 649)	**—**	—
Amounts due to customers for contract work (current)	**(35 482)**	(53 890)	**—**	—
Net amounts due to customers for contract work	**(25 543)**	(96 534)	**—**	—

Obligation will be settled in the normal operating cycle of the business. For construction contracts this would be greater than a year.

11. TRADE AND OTHER RECEIVABLES

	Consolidated		Company	
R'000	**2017**	2016	**2017**	2016
Trade receivables	**306 455**	337 352	**—**	—
Less: Provision for impairment of trade receivables	**(2 295)**	(3 121)	**—**	—
Trade receivables — net	**304 160**	334 231	**—**	—
Other receivables	**26 739**	25 784	**9 863**	34 368
Prepayments	**3 121**	2 591	**49**	—
	334 020	362 606	**9 912**	34 368
Less: Non-current portion — trade receivable	**(7 073)**	(11 411)	**—**	—
Current portion	**326 947**	351 195	**9 912**	34 368

All non-current assets are due within five years from reporting date and relate to retentions on construction contracts.

Trade receivables of R306 455 000 (2016: R337 352 000) are pledged as collateral for the general short-term banking facility.

As of 31 December 2017, trade receivables of R48 895 000 (2016: R25 186 000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

The ageing analysis of these trade receivables is as follows:

	Consolidated		Company	
R'000	**2017**	2016	**2017**	2016
Up to three months	**45 982**	22 879	**—**	—
Up to six months	**2 063**	1 306	**—**	—
Over six months	**850**	1 001	**—**	—
	48 895	25 186	**—**	—

As at 31 December 2017, trade receivables of R2 295 000 (2016: R3 121 000) were impaired and provided for. The individually impaired receivables mainly relate to customers which are in unexpectedly difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered.

Movement on the Group provision for impairment of trade receivables is as follows:

	Consolidated		Company	
R'000	**2017**	2016	**2017**	2016
At 1 January	**3 121**	3 100	**—**	—
Utilisation of provision	**(454)**	(327)	**—**	—
Unused amounts reversed	**(1 322)**	(707)	**—**	—
Provision for receivables impairment	**950**	1 055	**—**	—
At 31 December	**2 295**	3 121	**—**	—

The creation and release of provision for impaired receivables has been included in "administrative expenses" in the statements of comprehensive income. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security. No debtors terms have been renegotiated during the year.

The group has analysed the effect of the rise or fall of 1% in the prime lending rate to which the Group's trade and other receivables are exposed and concluded that this would decrease profit before income tax by approximately R130 453 (2016: R326 475) and increase in profit before income tax by approximately R132 613 (2016: R336 000).

Trade receivables of R255 265 000 (2016: 309 045 000) were fully performing.

11. TRADE AND OTHER RECEIVABLES (CONTINUED)

Trade receivables include foreign balances denominated in the following stated currencies:

	Consolidated	
R'000	**2017**	2016
United States dollar (USD)	**32 741**	47 871
European euro (EUR)	**559**	—
Australian dollar (AUD)	**1 866**	—
Canadian dollar (CAD)	**—**	2 372
	35 166	50 243

The amounts owed by other Howden Group companies are unsecured, interest-free and are repayable within a month. Refer to note 32 for balances owing by group companies.

Fair value of trade and other receivables

The carrying value approximates fair value due to the short period to maturity of these instruments.

12. LOANS RECEIVABLE

R'000	**2017**	2016
Loans to BEE companies		
Witbank Foundry	**3 375**	—
Buhle Bethu Wire Cages	**3 000**	—
Sindawonye Services	**5 700****	5 700
Field Service and Engineering	**6 050****	2 850
Fidelity Fund	**7 500***	7 500
	25 625	16 050

The loans are interest free, not secured and repayable within 12 months.

The loans were issued for Enterprise and Supplier development in terms of B-BBEE Codes of Good Practice.

* Loans issued in 2015 were expropriated in a trust fund of an attorney responsible for managing the funds. A default judgement was issued in January 2018 against the attorney and management anticipate to recover the monies in 2018 as per consultation with our legal counsel.

** The loan amounts from prior year (R8 550 000) that were repayable in December 2017 were repaid in early 2018 as a result of the companies having shut down during December.

Loans amounting to R9 575 000 were issued during the year.

Fair value of loans receivable

The carrying value approximates fair value due to the short period to maturity of these instruments.

13. RETIREMENT FUNDS

Defined Contribution Fund

The Group operates a defined contribution pension fund for all employees who joined on or after 1 January 2001. Employees who are not members of either of the Group's pension funds are covered by the relevant industry fund or through foreign territory statutory funds. All the funds are managed independently of the Group.

Defined Benefit Fund

The Group operated a post-retirement scheme that covers all employees employed before 1 January 2001. Approvals from the Financial Services Board to transfer pensioners to their own pension fund and employees to a defined contribution fund was obtained on 21 September 2015 and 15 September 2016 respectively effective 31 March 2015. The pension fund is a final salary defined benefit plan. The assets of the fund are held in an independent trustee administered fund, which is administered in terms of the Pension Fund Second Amendment Act No 39 of 2001. The latest valuation for accounting purposes was performed on 31 December 2017 and the most recent statutory actuarial valuation was performed as at 31 March 2015.

Five pensioners remain on the fund and the liability is fully insured, the fund purchased annuities to back the pensions payable to existing pensioners. In the current year, a pensioner lodged a successful claim to this fund.

13. RETIREMENT FUNDS (CONTINUED)

The amounts recognised in the statements of financial position are determined as follows:

	Company and Consolidated	
R'000	**2017**	2016
Present value of funded obligations	**4 611**	4 893
Fair value of assets	**(21 682)**	(22 378)
Surplus recognised	**(17 071)**	(17 485)

According to the rules of the fund all surpluses in the fund will be transferred to the Employer Surplus Account and therefore accrue to the employer.

The movement in the defined benefit obligation over the year is as follows:

	Company and Consolidated	
R'000	**2017**	2016
Beginning of the year	**4 893**	142 928
Settlement	**—**	(138 035)
Benefits paid	**(282)**	—
End of year	**4 611**	4 893

The movement in the fair value of plan assets for the year is as follows:

	Company and Consolidated	
R'000	**2017**	2016
Beginning of the year	**22 378**	160 640
Return on plan assets	**1 253**	1 576
Actuarial losses on plan assets	**—**	(1 803)
Settlement	**(1 667)**	(138 035)
Benefits paid	**(282)**	—
End of year	**21 682**	22 378

The amounts recognised in the profit or loss are as follows:

	Company and Consolidated	
R'000	**2017**	2016
Net interest income	**(1 253)**	(1 576)
Settlement cost	**1 667**	—
Total included in profit before tax	**414**	(1 576)

The amounts recognised in the other comprehensive income are as follows:

	Company and Consolidated	
R'000	**2017**	2016
Net actuarial loss recognised during the year	**—**	1 803
	—	1 803

13. RETIREMENT FUNDS (CONTINUED)

COMPANY AND CONSOLIDATED

Plan assets are comprised as follows:

	2017 R'000	2017 %	2016 R'000	2016 %
Money market fund	**17 071**	**79**	17 485	78
Insurance policy	**4 611**	**21**	4 893	22
	21 682	**100**	22 378	100

The fund holds no investments in the participating employer.

There are no contributions made to the Defined Benefit Fund in the period (2016: Rnil) and no contributions are expected for 2018.

14. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Consolidated		Company	
R'000	**2017**	2016	**2017**	2016
Financial assets carried at fair value				
Forward exchange contracts	**—**	—	**—**	—
Foreign exchange contracts in cash flow hedges	**—**	5	**—**	—
Total	**—**	5	**—**	—
Financial liabilities carried at fair value				
Forward exchange contracts	**—**	17	**—**	—
Foreign exchange forward contracts in cash flow hedges	**4 677**	1 798	**—**	—
Total	**4 677**	1 815	**—**	—

The fair value of these recurring financial instruments, is determined through evaluation techniques based on observable inputs, either directly, such as quoted prices, or indirectly, such as derived from quoted prices. The level 2 instruments are valued based on the forward exchange rates as at 31 December 2017.

15. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statement of cash flows comprised the following statements of financial position amounts:

	Consolidated		Company	
R'000	**2017**	2016	**2017**	2016
Bank and cash balances — current	**1 176 421**	909 341	**932 697**	600 566
	1 176 421	909 341	**932 697**	600 566

At 31 December 2017, the Group had available R50 million (2016: R50 million) of undrawn short-term borrowing facilities. Trade receivables of R306 455 000 (2016: R337 352 000) are pledged as collateral for the general short-term banking facility.

The Company and its subsidiaries have entered into cross-surety agreements in favour of Standard Bank of South Africa wherein each such entity undertook to stand as surety for and co-principal debtor for any present and future indebtedness of the other Group entities, limited to an aggregate liability of R301 million. These cross-surety agreements incorporated a cession of claims held against other Group entities.

The Group has analysed the effect of a rise/fall of 1% in the prime lending rate to which the Group's cash and cash equivalents are exposed and concluded that this would increase/decrease profit before income tax by approximately R11 764 210 (2016: R9 093 410).

The average interest rate earned on bank balances was 7.31% (2016: 6.59%).

Fair value of cash and cash equivalents

The carrying value of cash and cash equivalents approximates fair value due to the short-term maturity of those instruments.

16. INVENTORIES

The amounts attributable to the different categories are as follows:

	Consolidated		Company	
R'000	**2017**	2016	**2017**	2016
— Raw materials, components and consumables	**5 382**	6 169	**—**	—
— Work in progress	**150 470**	151 097	**—**	—
— Finished goods	**181 213**	174 900	**—**	—
	337 065	332 166	**—**	—

Inventory of R747 million (2016: R675 million) has been included in costs of sales.

17. RECONCILIATION OF TAXATION PAID DURING THE YEAR

	Consolidated		Company	
R'000	**2017**	2016	**2017**	2016
Amount due/(owing) at beginning of year	**18 419**	29 954	**(4 935)**	166
Charge in profit or loss	**(113 252)**	(84 684)	**(27 473)**	(15 613)
Adjustment for deferred taxation	**513**	1 174	**(264)**	109
Amount receivable at end of year	**(23 259)**	(31 542)	**—**	—
Amount owing at end of year	**562**	13 123	**562**	4 935
	(117 017)	(71 975)	**(32 110)**	(10 403)

18. SHARE CAPITAL

	Consolidated		Company	
R'000	**2017**	2016	**2017**	2016
Authorised				
150 000 000 ordinary shares of 1 cent each	**1 500**	1 500	**1 500**	1 500
Issued				
65 729 109 ordinary shares of 1 cent each	**657**	657	**657**	657
	657	657	**657**	657

Holding Company

The holding company of Howden Africa Holdings Limited is Howden Group South Africa Limited, incorporated in South Africa and its ultimate holding company is Colfax Corporation, incorporated in the United States of America.

18. SHARE CAPITAL (CONTINUED)

SHAREHOLDERS' ANALYSIS AT 31 DECEMBER 2017

	2017 Number of shareholders	2016 Number of shareholders	**2017 Number of shares**	2016 Number of shares
Holdings				
1 – 1 000 shares	**584**	626	**208 933**	233 070
1 001 – 100 000 shares	**453**	492	**4 108 753**	5 138 819
100 001 – 1 000 000 shares	**36**	30	**12 151 229**	9 423 051
Over 1 000 001 shares	**8**	10	**49 260 194**	50 934 169
	1 081	1 158	**65 729 109**	65 729 109
Category of ordinary shareholders				
Holding companies	**2**	2	**36 408 743**	36 408 743
Individuals	**806**	820	**1 992 767**	2 034 319
Banks, nominees and trust companies	**111**	150	**9 273 291**	6 850 806
Insurance companies	**7**	8	**710 294**	752 391
Pension funds and investment companies	**40**	40	**4 512 465**	4 649 496
Endowment and mutual funds	**46**	58	**11 341 008**	13 164 884
Other corporations and close corporations	**26**	26	**165 068**	131 723
Other public and private companies	**43**	54	**1 325 473**	1 736 747
	1 081	1 158	**65 729 109**	65 729 109

	2017 Number of shares	2016 Number of shares	**2017 %**	2016 %
Ordinary share capital				
Major shareholders beneficially interested in 5% or more of the Company's listed securities				
Howden Group South Africa Limited	**31 484 981**	31 484 981	**47.90**	47.90
James Howden & Godfrey Overseas Limited	**4 923 762**	4 923 762	**7.49**	7.49
Barca Capital	**4 367 031**	2 759 185	**6.64**	4.20
Oasis	**2 929 381**	3 489 836	**4.46**	5.31
Shareholder spread in terms of section 8.63(e) of the JSE Limited Listing Requirements				
Howden Group South Africa Limited	**31 484 981**	31 484 981	**47.90**	47.90
James Howden & Godfrey Overseas Limited	**4 923 762**	4 923 762	**7.49**	7.49
Public and non-public shareholders				
Non-public shareholders				
Directors and associates of the Company holdings*	**22 994**	23 903	**0.03**	0.04
Strategic holdings and holding company**	**36 408 743**	36 408 743	**55.39**	55.39
Public shareholders	**29 297 372**	29 296 463	**44.58**	44.57
	65 729 109	65 729 109	**100.00**	100.00

* T Barward resigned from the Howden Group during the year. No director of the Company has any interest in share capital.

** Strategic holding is inclusive of Howden Group South Africa Limited and James Howden & Godfrey Overseas Limited.

19. TRADE AND OTHER PAYABLES

	Consolidated		Company	
R'000	**2017**	2016	**2017**	2016
Trade payables	**202 372**	150 242	**—**	—
Accruals	**42 035**	50 244	**—**	—
Income received in advance	**123 949**	106 936	**—**	—
Amounts owing to other Howden Group companies	**63 355**	72 322	**4 311**	4 244
Social security and other taxes	**13 929**	15 111	**—**	—
Other payables	**20 641**	21 164	**16 742**	12 039
	466 281	416 019	**21 053**	16 283

The amounts owing to other Howden Group companies are unsecured, interest-free and subject to fixed terms of repayment. See note 32 for details.

Payables include foreign balances denominated in the following stated currencies:

	Consolidated	
R'000	**2017**	2016
European euro (EUR)	**15 793**	11 286
British pound (GBP)	**3 670**	1 218
United States dollar (USD)	**82 870**	83 927
Canadian dollar (CAD)	**856**	—
Indian rupee (INR)	**8**	8
Australian dollar (AUD)	**12**	649
	103 209	97 088

Fair value of trade and other payables

The carrying value approximates fair value because of the short period to settlement of these obligations.

20. GOVERNMENT GRANTS

	Consolidated		Company	
R'000	**2017**	2016	**2017**	2016
At 1 January	**8 621**	9 671	**—**	—
Released to the statement of profit or loss	**(896)**	(1 050)	**—**	—
At 31 December	**7 725**	8 621	**—**	—
Current	**906**	915	**—**	—
Non-current	**6 819**	7 706	**—**	—
	7 725	8 621	**—**	—

Government grants have been received for the purchase of certain items of property, plant and equipment. There are no unfulfilled conditions or contingencies attached to these grants.

21. PROVISIONS

	Consolidated		Company	
R'000	**2017**	2016	**2017**	2016
Warranty				
At beginning of year	**29 942**	29 229	**—**	—
Additional provision	**18 248**	10 316	**—**	—
Warranty expenditure in current year	**(17 730)**	(8 589)	**—**	—
Unused amounts released	**(6 511)**	(1 014)	**—**	—
At end of year	**23 949**	29 942	**—**	—

Provisions are made on long-term contracts for warranties calculated on an appropriate percentage of the contract value contractual arrangement.

	Consolidated		Company	
R'000	**2017**	2016	**2017**	2016
Restructuring Provision				
At beginning of year	**—**	1 472	**—**	—
Expenditure in current year	**—**	(1 472)	**—**	—
At end of year	**—**	—	**—**	—
Disclosure:				
Non-current liabilities	**12 956**	11 642	**—**	—
Current liabilities	**10 993**	18 300	**—**	—
Total provisions	**23 949**	29 942	**—**	—

22. REVENUE

Revenue which excludes value-added tax and revenue between Group companies, represents the invoiced value of goods and services supplied and the recognised value of long-term contract work.

	Consolidated		Company	
R'000	**2017**	2016	**2017**	2016
Revenue from continuing operations				
— Construction contracts	**406 292**	267 955	**—**	—
— Sale of goods	**796 825**	689 276	**—**	—
— Services	**539 833**	647 304	**—**	—
	1 742 950	1 604 535	**—**	—
Revenue for the Company includes other income items as follows:				
— Dividend income	**—**	—	**250 000***	—
— Interest income	**—**	—	**54 280**	40 313
— Licence fees	**—**	—	**10 584**	10 550
— Service fees	**—**	—	**4 126**	—
— Management fee income	**—**	—	**26 405**	24 690
— Royalties	**—**	—	**42 485**	36 337
	—	—	**387 880**	111 890

* Dividend received from Howden Africa Proprietary Limited.

23. OPERATING PROFIT IS STATED AFTER CHARGING

R'000	Note	Consolidated 2017	Consolidated 2016	Company 2017	Company 2016
Amortisation of intangible assets					
— Trademarks and other intangible assets	7	**1 936**	1 975	**1 656**	1 656
Auditors' remuneration					
— Audit fees — current year		**2 888**	2 605	**2 888**	2 605
— Other services		**265**	93	**265**	93
Total auditors' remuneration		**3 153**	2 698	**3 153**	2 698
Depreciation					
— Buildings		**2 288**	2 500	**—**	—
— Plant, equipment and vehicles		**11 691**	11 611	**33**	87
Total depreciation	6	**13 979**	14 111	**33**	87
Provisions	21	**11 737**	9 302	**—**	—
Loss on disposal of plant, equipment, vehicles and software	28	**—**	—	**—**	(18)
Rental under operating leases		**12 659**	11 937	**182**	—
Employee benefits					
— Salaries and wages		**450 482**	459 215	**11 055**	10 688
— Social security costs		**4 836**	9 939	**472**	5 497
— Pension costs — defined contribution scheme	13	**14 878**	14 658	**376**	1 143
— Pension costs — defined benefit scheme settlement loss	13	**1 667**	—	**1 667**	—
Total employee benefits		**471 863**	483 812	**13 570**	17 328
Repairs and maintenance		**7 629**	8 363	**6**	5
Foreign exchange loss		**6 742**	8 451	**444**	1 528

24. INVESTMENT INCOME

R'000	Note	Consolidated 2017	Consolidated 2016	Company 2017	Company 2016
— Interest income		**76 241**	53 990	**—**	—
— Defined benefit fund — net of interest paid	13	**1 253**	1 576	**1 253**	1 576
		77 494	55 566	**1 253**	1 576

25. INCOME TAX EXPENSE

	Consolidated		Company	
R'000	**2017**	2016	**2017**	2016
South African normal tax				
Current tax				
— current year	**112 111**	83 567	**27 426**	15 504
— prior year	**628**	(57)	**311**	—
Deferred tax				
— current year	**513**	1 174	**(264)**	109
	113 252	84 684	**27 473**	15 613
	%	%	**%**	%
Reconciliation of rate of tax				
South African normal tax rate	**28.0**	28.0	**28.0**	28.0
Adjusted for:				
Other permanent differences*	**0.8**	(0.1)	**1.3**	0.9
Exempt dividend income	**—**	—	**(21.0)**	—
Net increase/(reduction)	**0.8**	(0.1)	**(19.7)**	0.9
Effective rate	**28.8**	27.9	**8.3**	28.9

* Permanent differences include learnerships, donations and expenses attributable to dividend income.

26. EARNINGS PER ORDINARY SHARE

	Consolidated	
	2017	2016
Number of shares in issue ('000)	**65 729**	65 729
	Cents	Cents
Earnings per ordinary share	**426.38**	332.31
Headline earnings per share	**426.58**	332.36
There is no dilution effect on earnings		
	R'000	R'000
Headline earnings reconciliation		
Net profit for the year	**280 256**	218 421
Write off of property, plant and equipment	**131**	35
	280 387	218 456

Basic EPS amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

27. CASH GENERATED FROM/(UTILISED IN) OPERATIONS

R'000	Note	Consolidated 2017	Consolidated 2016	Company 2017	Company 2016
Profit before income tax		**393 508**	303 105	**332 912**	54 016
Adjustments for:					
Depreciation	6	**13 979**	14 111	**33**	87
Government grant income	20	**(896)**	(1 050)	**—**	—
Amortisation of intangible assets	7	**1 936**	1 975	**1 656**	1 656
Pension fund surplus/(charges)	13	**414**	(1 576)	**414**	(1 576)
Write off of property, plant and equipment and intangible assets	6	**131**	35	**—**	—
Cash flow hedge reclassified to profit or loss		**94**	262	**—**	—
Loss on disposal of property, plant and equipment	28	**—**	—	**—**	18
Dividend income	22	**—**	—	**(250 000)**	—
Net finance income		**(76 095)**	(53 917)	**(54 264)**	(40 312)
Unrealised FEC (gain)/loss	14	**(17)**	592	**—**	51
Warranty and restructuring provision in profit or loss	21	**11 737**	9 302	**—**	—
		344 791	272 839	**30 751**	13 940
Working capital changes		**(14 772)**	(56 542)	**29 226**	(22 456)
Increase in inventories		**(4 899)**	(97 003)	**—**	—
Decrease/(increase) in accounts receivable		**2 702**	(5 466)	**24 456**	(21 145)
Increase/(decrease) in accounts payable		**5 155**	55 988	**4 770**	(1 311)
Decrease in provisions		**(17 730)**	(10 061)	**—**	—
Cash generated from/(utilised in) operations		**330 019**	216 297	**59 977**	(8 516)

28. PROCEEDS ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

R'000	Note	Consolidated 2017	Consolidated 2016	Company 2017	Company 2016
Book value	6, 7	**—**	111	**—**	18
Loss on disposal		**—**	—	**—**	(18)
Proceeds		**—**	111	**—**	—

29. COMMITMENTS

R'000	Consolidated 2017	Consolidated 2016	Company 2017	Company 2016
Leases				
Payments due within one year	**10 977**	11 600	**168**	311
Payments due within two to five years	**8 559**	12 764	**56**	283
Payments due after five years	**—**	36	**—**	—
	19 536	24 400	**224**	594

Note

Operating lease agreements for land and buildings include a clause to renew the lease for a future negotiated period.

Motor vehicles under operating leases are returned to the lessor at the end of the lease period and subject to capped mileage.

Operating lease agreements have escalation clauses linked to inflation.

30. GUARANTEES

Performance and retentions guarantees amounting to R72 427 098 (2016: R86 121 469) have been supplied to third parties on projects being executed.

The Company and its subsidiaries have entered into cross-surety agreements in favour of Standard Bank of South Africa wherein each such entity undertook to stand as surety and co-principal debtor for any present and future indebtedness of the other Group entities, limited to an aggregate liability of R301 million. These cross-surety agreements incorporated a cession of claims held against other Group entities.

The Company has undertaken to stand as surety and co-principal debtor with Howden Africa Proprietary Limited (the principal debtor), for the due and proper payment of all sums of money which the principal debtor may now or in the future owe to a specified supplier, limited to an amount of R25 million. The exposure at year end was R12 672 140 (2016: Rnil).

No losses are expected to arise out of the above arrangements.

31. LITIGATION

There are no legal matters which in the opinion of the Group and in consultation with legal counsel would have any material consolidated effect on the Group's financial position, results of operations or cash flow.

32. RELATED PARTY TRANSACTION

For details of subsidiary companies and the Group's interest therein refer to note 8.

Refer to page 28 and 29 for details of the directors and note 33 to the financial statements for details of emoluments paid to directors.

Refer to note 30 to the financial statements for details of guarantees provided on behalf of the subsidiary companies.

R'000	Consolidated 2017	Consolidated 2016
GROUP		
Key management personnel compensation		
— Short-term employee benefits	**21 813**	26 627
— Post-employment pension benefits	**967**	1 730
	22 780	28 357

32. RELATED PARTY TRANSACTION (CONTINUED)

Related party transactions with entities outside the Howden Africa Group

R'000	Sales to related parties	Purchases from related parties	Management fee to related party	ERP licence fee to related party	Technology licence fee to related party	Service fee — shared service centre
GROUP						
2017						
Howden Denmark A/S	**46**	**8 075**	**—**	**—**	**—**	**—**
Howden Thomassen Compressors BV Netherlands	**—**	**922**	**—**	**—**	**—**	**—**
Howden Australia Proprietary Limited	**101 898**	**1 095**	**—**	**—**	**—**	**—**
Howden Group Limited UK	**83**	**156**	**16 619**	**7 534**	**—**	**—**
Howden Holdings Limited UK	**—**	**—**	**—**	**—**	**2 599**	**—**
James Howden and Co.	**—**	**848**	**—**	**—**	**—**	**—**
Howden Process Compressors Limited	**—**	**6 934**	**—**	**—**	**—**	**—**
Howden Alphair Simsmart	**—**	**25**	**—**	**—**	**—**	**—**
Howden Roots LLC	**—**	**451**	**—**	**—**	**—**	**—**
Howden Turbo Finland	**—**	**554**	**—**	**—**	**—**	**—**
ESAB KFT	**—**	**—**	**—**	**—**	**—**	**4 126**
Howden North America	**818**	**926**	**—**	**—**	**—**	**—**
Howden Compressors Limited	**—**	**2 898**	**—**	**—**	**—**	**—**
ESAB Middle East	**7**	**65 236**	**—**	**—**	**—**	**—**
Howden Hua Engineering	**—**	**141**	**—**	**—**	**—**	**—**
Howden BC Compressors	**—**	**53**	**—**	**—**	**—**	**—**
	102 852	**88 314**	**16 619**	**7 534**	**2 599**	**4 126**
2016						
Howden Denmark A/S	—	7 758	—	—	—	—
Howden Thomassen Compressors BV Netherlands	—	398	—	—	—	—
Howden Australia Proprietary Limited	50 484	404	—	—	—	—
Howden Group Limited UK	—	7	15 361	7 758	—	—
Howden Holdings Limited UK	73	786	—	—	2 560	—
Howden Process Compressors Limited	71	3 157	—	—	—	—
Howden South America	439	—	—	—	—	—
FW US Fairfield	133	—	—	—	—	—
FW Finland	—	152	—	—	—	—
Howden Mexico	—	20 590	—	—	—	—
ESAB KFT	—	—	—	—	—	3 380
Howden North America	2 883	—	—	—	—	—
Howden Compressors Limited	—	1 152	—	—	—	—
ESAB Middle East	273	121 727	—	—	—	—
Howden Hua Engineering	—	243	—	—	—	—
Howden BC Compressors	—	75	—	—	—	—
	54 356	156 449	15 361	7 758	2 560	3 380

32. RELATED PARTY TRANSACTION (CONTINUED)

Related party transactions at Company level

R'000	Management fee to/(from) related parties	ERP licence fee to/(from) related parties	Technology licence fee to/(from) related party	Royalties from related parties	Service fee — shared service centre
COMPANY					
2017					
Howden Group Limited UK	**16 619**	**7 534**	**—**	**—**	**—**
Howden Holdings Limited UK	**—**	**—**	**2 599**	**—**	**—**
ESAB KFT	**—**	**—**	**—**	**—**	**4 126**
James Howden Holdings Proprietary Limited	**(5 708)**	**(3 280)**	**(804)**	**(14 622)**	**(1 868)**
Howden Donkin Proprietary Limited	**(1 089)**	**—**	**—**	**(2 732)**	**—**
Howden Africa Proprietary Limited	**(19 609)**	**(4 705)**	**(1 795)**	**(25 131)**	**(2 258)**
Exchange rate difference	**234**	**451**	**—**	**—**	**—**
Howden Africa Holdings Limited	**(9 553)**	**—**	**—**	**(42 485)**	**—**
2016					
Howden Group Limited UK	15 361	7 758	—	—	—
Howden Holdings Limited UK	—	—	2 560	—	—
ESAB KFT	—	—	—	—	3 380
James Howden Holdings Proprietary Limited	(3 940)	(3 210)	(800)	(9 247)	(1 469)
Howden Donkin Proprietary Limited	(1 576)	—	—	(3 602)	(1 911)
Howden Africa Proprietary Limited	(19 173)	(4 780)	(1 760)	(23 489)	—
Exchange rate difference	400	232	—	—	—
Howden Africa Holdings Limited	(8 928)	—	—	(36 338)	—

32. RELATED PARTY TRANSACTION (CONTINUED)

Related party balances as at 31 December 2017

	2017		2016	
R'000	**Amounts due by related parties**	**Amounts owed to related parties**	Amounts due by related parties	Amounts owed to related parties
GROUP				
Howden Denmark A/S	**—**	**7 935**	—	2 518
FW Finland	**—**	**—**	—	128
Howden Thomassen BV Netherlands	**—**	**308**	—	172
Howden Australia Proprietary Limited	**38 676**	**969**	45 994	756
Howden Group Limited UK	**45**	**632**	—	306
Howden Holdings Limited UK	**—**	**3 251**	55	3 220
Howden North America	**—**	**856**	2 453	—
Howden HUA Engineering	**—**	**—**	—	37
Howden Compressors Limited	**71**	**2 344**	69	1 187
ESAB Middle East	**666**	**45 819**	1 421	63 064
ESAB KFT	**—**	**353**	—	388
Howden South America	**—**	**—**	378	—
James Howden & Co	**—**	**880**	—	487
Howden India	**—**	**8**	—	8
	39 458	**63 355**	50 370	72 271

Amounts due by related parties are receivable within a month, refer to note 11.

Amounts owed to related parties are payable within a month and up to three months, refer to note 19.

	2017		2016	
R'000	**Amounts due by related parties**	**Amounts owed to related parties**	Amounts due by related parties	Amounts owed to related parties
COMPANY				
Howden Australia Proprietary Limited	**—**	**—**	—	378
Howden Group Limited UK	**—**	**508**	—	266
Howden Holdings Limited UK	**—**	**2 599**	—	—
ESAB KFT	**—**	**353**	—	388
James Howden Holdings Proprietary Limited	**200**	**—**	—	—
Howden Donkin Proprietary Limited	**3 115**	**42**	1 801	—
Howden Africa Proprietary Limited	**1 090**	**809**	18 882	652
	4 405	**4 311**	20 683	1 684

Management fees

The management fees are in accordance with management services agreement concluded between Howden Group Limited and Howden Africa Holdings Limited in terms of which the former provides designated management services to Howden Africa Holdings Limited and its subsidiaries.

ERP licence fees

ERP licence fees relate to the a licence to utilise designated Howden software.

Shared services fees

Shared services fees are in accordance with an agreement concluded between ESAB KFT and Howden Africa Holdings Limited in terms of which the former provides transactional accounting services to Howden Africa Holdings Limited's subsidiaries.

Technology licence fees

Technology licence fees relate to use of Howden technology in the manufacturing of goods by Howden Africa.

32. RELATED PARTY TRANSACTION (CONTINUED)

Royalties

Royalties relate to the use of Howden intellectual property.

Defined benefit fund

There is no contractual agreement or stated policy for charging the net defined benefit cost, in relation to employees on the Howden South Africa Defined Benefit Pension Fund, to Group companies. The Group's net contribution to the pension fund has been disclosed in note 13.

Relationships

Ultimate holding company	Colfax Corporation
Holding company	Howden Group South Africa Limited
Subsidiaries — wholly owned	James Howden Holdings Proprietary Limited
	Howden Donkin Proprietary Limited
	Howden Africa Proprietary Limited

33. DIRECTORS' EMOLUMENTS

R'000	Fees for services as director	Basic salary	Bonuses or performance-related payments[2]	Any other benefit received[1]	Contribution to pension scheme	Total
2017						
Executive directors						
William Thomson	**—**	**2 665**	**796**	**2 547**	**266**	**6 274**
Marinella Vigouroux	**—**	**1 573**	**—**	**567**	**110**	**2 250**
Kevin Johnson (resigned 8 December 2016)	**—**	**—**	**—**	**190**	**—**	**190**
Non-executive directors						
Ian Brander[3]	**—**	**—**	**—**	**—**	**—**	**—**
James Brown[3]	**—**	**—**	**—**	**—**	**—**	**—**
Humphrey Mathe	**196**	**—**	**—**	**—**	**—**	**196**
Morongwe Malebye	**294**	**—**	**—**	**—**	**—**	**294**
Suleman Badat (appointed 1 December 2017)	**66**	**—**	**—**	**—**	**—**	**66**
Mitesh Patel (resigned 19 October 2017)	**207**	**—**	**—**	**—**	**—**	**207**
	763	**4 238**	**796**	**3 304**	**376**	**9 477**
2016						
Executive directors						
William Thomson	—	2 815	—	1 184	281	4 280
Marinella Vigouroux (appointed 8 December 2016)	—	90	—	26	6	122
Thomas Barwald (contract ended 31 May 2016)	—	1 924	1 574	467	420	4 385
Kevin Johnson (resigned 8 December 2016)	—	2 961	1 021	1 843	478	6 303
Non-executive directors						
Ian Brander[3]	—	—	—	—	—	—
James Brown[3]	—	—	—	—	—	—
Humphrey Mathe	251	—	—	—	—	251
Morongwe Malebye	280	—	—	—	—	280
Mitesh Patel	278	—	—	—	—	278
	809	7 790	2 595	3 520	1 185	15 899

1 Benefits are inclusive of medical aid, company vehicle costs, leave pay, share options and expat allowances.

2 Bonuses relate to the previous financial year.

3 The non-executive directors are not remunerated by Howden Africa Holdings Limited or any of its subsidiaries. They are remunerated by Howden UK. The compensation for services rendered as directors are estimated to be in line with that of other non-executive directors.

William Thomson is remunerated in GBP as per the secondment contract and his salary cost is not hedged.

33. DIRECTORS' EMOLUMENTS (CONTINUED)

All other directors' emoluments are paid by Howden Africa Holdings Limited.

The base salaries of the executive directors are reviewed annually to ensure they are supportive of both the Company's business objectives and the creation of shareholder wealth. Salaries are benchmarked against those paid to directors in companies in comparable sectors which are of a similar size.

Performance-related payments

Actual bonuses were assessed depending on the achievement of a number of corporate and individual targets. The main areas of measurement were:

- Bookings relative to budget and performance against previous year.
- Operating profit relative to budget and performance against previous year.
- Working capital turns relative to budget and performance against previous year.
- Personal performance based on completion of objectives.

Maximum bonus only becomes payable for performance substantially in excess of budget and no bonus would be payable for performance that is substantially below budget.

Share options

There were no share options available for Howden Africa Holdings Limited. Executive directors participate in a scheme operated by the Group's majority shareholder Colfax Corporation.

Service contract

William Thomson has a single service contract with Howden UK Limited and operates as Chief Executive Officer of the Company based on an agreement for an international assignment. The assignment commenced on 1 February 2016 as COO and on 1 June 2016 as CEO covering an initial period of two years ending 31 May 2018.

Marinella Vigouroux was appointed as Chief Financial Officer effective 8 December 2016.

Termination periods for executive directors:

Early termination by director:

- On mutually agreeable notice period to be agreed at the time of the event.

Early termination by Howden:

Forthwith in the event of:

- Their inability to carry out his duties for a consecutive period of six months or more on account of physical or mental disability.
- Their conduct, including dishonesty and being convicted of an offence.
- Their prejudicial conduct to the business of Howden Africa.
- If employment with Howden Group UK or Howden Africa Holdings Limited ceases at any time for whatsoever reason.

There are no local restraints of trade applicable to executive directors.

Morongwe Malebye joined the board as an independent non-executive director on 7 November 2007. Humphrey Mathe joined the board as an independent non-executive director with effect from 1 July 2012. Mitesh Patel resigned from the board on 19 October 2017 and has been replaced by Suleman Badat who has rejoined the board as an independent non-executive effective 1 December 2017.

All independent non-executive directors are appointed under a letter of appointment on a three-year rotation basis. There are no restraints of trade incorporated into independent non-executive director letters of appointment.

Termination periods applicable to independent non-executive directors shall be on mutually agreed periods and shall be in accordance with any applicable legislation.

34. EVENTS AFTER REPORTING DATE

There were no events identified after the reporting date that require an adjustment or disclosure to the annual financial statements.

NOTICE OF ANNUAL GENERAL MEETING

HOWDEN AFRICA HOLDINGS LIMITED
(Incorporated in the Republic of South Africa)
Registration number 1996/002982/06)
(the Company)
JSE Code: HWN ISIN Code: ZAE 000010583

Notice is hereby given that a annual general meeting (the AGM) of shareholders of the Company will be held at its registered offices on Wednesday, 30 May 2018 at 1a Booysens Road, Booysens, Johannesburg, South Africa at 13h30 to consider and, if deemed fit, passing with or without modification all ordinary and special resolutions as set out below.

WHO HAS RECEIVED NOTICE OF THIS ANNUAL GENERAL MEETING

In accordance with section 59(1) of the Act, the Company's board of directors has resolved the record date for determining shareholders of the Company entitled to receive notice of this AGM as being those recorded as such in the share register of the Company, maintained by the transfer secretaries, as being the close of business on Friday, 23 March 2018.

WHO MAY ATTEND THIS ANNUAL GENERAL MEETING

In accordance with section 59(1(b) of the Act, the Company's board of directors has resolved that the record date for determining which shareholders of the Company are entitled to attend, participate in, and to vote at this AGM, as Friday, 25 May 2018. Accordingly, the last date to trade in the Company's shares on the JSE Limited (JSE) in order to be eligible to attend, participate in and vote at this AGM is Tuesday, 22 May 2018.

All meeting participants will be required to provide identification.

The purpose of the meeting is to transact the business below and to consider and, if deemed fit, pass the following resolutions with or without modification to the resolutions below.

Ordinary resolution 1: Adoption of annual financial statements

Resolved that the annual financial statements for the Company and the Howden Africa Group for the year ended 31 December 2017 be and are hereby adopted.

EXPLANATORY NOTES

The complete annual financial statements are set out on pages 64 to 103 of the integrated annual report for the year ended 31 December 2017 and have been distributed as required by the Act and JSE Listings Requirements (Listings Requirements). In addition to the annual financial statements, the integrated annual report also incorporates the external auditor's report, Audit and Risk Committee report, directors' report and the remuneration, nomination, social and ethics report.

The integrated annual report will also be available on the Company's website, **www.howden.co.za**, and a printed copy can be obtained from the transfer secretaries and/or company secretary.

In order to be adopted this ordinary resolution requires the support of more than 50% of the voting rights exercised on the resolution.

Ordinary resolution 2: External auditors

Resolved that Ernst & Young Inc. be and are hereby appointed as Howden's independent auditors, as nominated by its Audit and Risk Committee, and to note that the individual registered auditor who will undertake the audit during the financial year ending 31 December 2017 is Cornelius Els.

EXPLANATORY NOTES

In order to be adopted this ordinary resolution requires the support of more than 50% of the voting rights exercised on the resolution.

Ordinary resolution 3: Re-appointment of Audit and Risk Committee members

Resolved that each of the following independent directors, who are eligible and offer themselves for re-election, be and are hereby re-elected, each by way of a separate vote, as members of the Company's Audit and Risk Committee:

3.1 Suleman Badat (member and chairman)
3.2 Morongwe Malebye (member)
3.3 Humphrey Mathe (member)

EXPLANATORY NOTES

Biographies of these independent directors appear on page 28 of the integrated annual report.

The appointments numbered 3.1 to 3.3 constitute separate ordinary resolutions and will be considered by separate votes.

In order to be adopted each ordinary resolution requires the support of more than 50% of the voting rights exercised on each resolution.

Ordinary resolution 4: Remuneration policy and implementation report

Resolved that the Company and its subsidiaries' remuneration policy for the 2018 financial year, appearing on pages 51 to 52 of the integrated annual report, be and is hereby endorsed by a non-binding advisory vote.

EXPLANATORY NOTES

Part 5 Principle 14 of King IV, dealing with boards and directors, requires companies to table its:

4.1 Remuneration policy; and
4.2 Implementation report

to shareholders for a non-binding advisory vote at each annual general meeting.

The Company's remuneration policy and implementation report are detailed on pages 51 to 52 of this report.

The policy and report numbered 4.1 and 4.2 constitute separate ordinary resolutions and will be considered by separate votes.

In order to be endorsed this ordinary resolution requires the support of more than 50% of the voting rights exercised on the resolution.

Ordinary resolution 5: Re-election of directors

Resolved that each of the following directors, who retire from office at this meeting and offer themselves for re-election, be and are hereby re-elected, each by way of a separate vote, as a director of the Company:

5.1 Ian Brander
5.2 James Brown
5.3 William Thomson

EXPLANATORY NOTES

Biographical details for these directors appear on pages 28 to 29 of this report. Reasons for re-election are explained on page 40 and 42.

The appointments numbered 5.1 to 5.3 constitute separate ordinary resolutions and will be considered by separate votes.

In order to be adopted each ordinary resolution requires the support of more than 50% of the voting rights exercised on each resolution.

Ordinary resolution 6: Election of director

Resolved to elect Suleman Badat, who was appointed after the last annual general meeting, in accordance with the provisions of clause 39 of the company's memorandum of incorporation (MOI)

EXPLANATORY NOTES

Biographical details for this director appear on page 28 of this report.

Mr Mitesh Patel resigned effective 19 October 2017. Mr Badat was thereafter appointed as an independent non-executive director and the chairman of the Audit and Risk Committee on 01 December 2017.

In order to be adopted this ordinary resolution requires the support of more than 50% of the voting rights exercised on the resolution.

Ordinary resolution 7: Control of unissued share capital

Resolved that the authorised but unissued shares in the capital of the Company be and are hereby placed under the control and authority of the directors of the Company and that the directors of the Company are and be hereby authorised and empowered to allot, issue and otherwise dispose of such shares to such person or persons and on such terms and conditions and at such times as the directors of the Company may from time to time in their discretion deem fit subject to the provisions of the Act and the Listings Requirements, where applicable, and that such authority remain applicable until the Company's next AGM.

EXPLANATORY NOTES

In terms of the Company's MOI, shareholders may authorise the directors to allot and issue authorised but unissued shares as the directors in their discretion deem fit.

The existing general authorities granted by shareholders at the previous annual general meeting, held on 1 June 2017, will expire on 1 June 2018, unless renewed. The authorities will be subject to the Act. The aggregate number of ordinary shares able to be allotted and issued in terms of these authorities are limited as set out in the respective resolutions.

The directors consider it advantageous to renew these authorities to enable the company to take advantage of any business opportunity that may arise.

In order to be adopted this ordinary resolution requires the support of more than 50% of the voting rights exercised on the resolution.

Ordinary resolution 8: General authority to issue shares for cash

Resolved that the directors are hereby authorised as a general authority to issue any and all of the authorised but unissued shares in the capital of the Company, or to allot, issue and grant options to subscribe for, any and all of the authorised but unissued shares in the capital of the Company, for cash, subject to the Act, the MOI of the Company and the Listings Requirements of the JSE, where applicable, provided that:

(a) the equity securities be of a class already in issue or, where this is not the case, must be limited to such securities or rights that are convertible into a class already in issue;

(b) the equity securities must be issued to public shareholders, as defined in the Listings Requirements of the JSE, and not to related parties;

(c) the equity securities which are the subject of a general issue for cash may not exceed 15% of the Company's listed equity securities as at the date of the notice of the AGM this number being 9 858 366 shares, provided that:

  (i) the authority shall be valid until Howden's next annual general meeting, or for 15 months from the date on which the general issue for cash ordinary resolution was passed, whichever period is shorter subject to the Listings Requirements of the JSE and to any other restrictions set out in this authority;

  (ii) the calculation of the applicant's listed equity securities must be a factual assessment of the applicant's listed equity securities as at the date of the notice of AGM, excluding treasury shares;

  (iii) any equity securities issued under the authority during the period contemplated in (c)(i) above must be deducted from such number in (c)(i) above; and

  (iv) in the event of a sub-division or consolidation of issued equity securities during the period contemplated in (c)(i), the existing authority must be adjusted accordingly to represent the same allocation ratio.

(d) the maximum discount at which equity securities may be issued is 10% of the weighted average traded price of such equity securities measured over the 30 business days prior to the date that the price of the issue is agreed between the issuer and the party subscribing for the securities. The JSE should be consulted for a ruling if the applicant's securities have not traded in such 30 business day period;

(e) a SENS announcement giving full details, including the impact on net asset value, net tangible asset value, earnings and headline earnings per share will be published at the time of any issue representing, on a cumulative basis within a financial year, 5% or more of the number of securities in issue prior to the issue; and

(f) the authority includes any options/convertible securities that are convertible into an existing class of equity securities, where applicable.

EXPLANATORY NOTES

In terms of the Listings Requirements, the approval of 75% majority of the votes cast by shareholders present or represented by proxy at this AGM will be required for this authority to become effective.

Special resolution 1: General approval for acquisition of the Company's shares by the Company or a subsidiary

Resolved that, by way of general approval, the Company is authorised in terms of its MOI or that of any subsidiary to acquire its own shares in terms of sections 48 of the Act and in accordance with the Listings Requirements, which currently provide inter alia that:

(a) Any such acquisition of Company shares will be effected through the order book operated by the JSE trading system and done without prior understanding or arrangement between the Company and/or any subsidiary acquiring shares in the Company and the counterparty (reported trades are prohibited);

(b) This general authority will only be valid until the Company's next annual general meeting; or for 15 months from the date of passing this special resolution, whichever period is shorter;

(c) At any point, the Company and/or any subsidiary acquiring shares in the Company may only appoint one agent to effect any repurchase/s on its behalf;

(d) Repurchase of the Company's shares during a prohibited period as defined in of the Listings Requirements may not occur unless there is a repurchase programme in place where the dates and quantities of securities to be traded during the relevant period are fixed (not subject to any variation) and has been submitted to the JSE in writing prior to the commencement of the prohibited period. The Company or any subsidiary repurchasing shares must instruct an independent third party, which makes its investment decisions in relation to the issuer's securities independently of, and uninfluenced by, the Company and any of its subsidiaries, prior to the commencement of the prohibited period to execute the repurchase programme submitted to the JSE;

(e) An announcement will be published as soon as the Company and/or any subsidiary has acquired shares constituting, cumulatively, 3% of the number of Company shares in issue at the time the authority is granted and for each subsequent 3% purchased, containing full details of such acquisition;

(f) Repurchases in the aggregate in any one financial year by the Company or any subsidiary may not exceed 20% of the number of shares in issue at the start of that financial year;

(g) In determining the price at which Company shares are acquired by the Company or any of its subsidiaries in terms of this general authority, the maximum premium at which shares may be purchased will be 10% of the weighted average of the market value of Company shares for the five business days immediately preceding the date of the relevant transactions;

(h) Prior to entering the market to proceed with the repurchase, the board, by resolution authorising the repurchase, must acknowledge that it has applied the solvency and liquidity test as set out in section 4 of the Act and reasonably concluded that the Company or the relevant subsidiary acquiring shares of the Company will satisfy the solvency and liquidity test immediately after completing the proposed repurchase.

EXPLANATORY NOTES

The Company intends to act under the general authority referred to in this special resolution if prevailing circumstances (including market conditions) warrant it.

The Howden Africa board has considered the impact that a purchase of 20% of the Company's shares (being the maximum number of Company shares that may be purchased in terms of this special resolution) would have on the Company and the Howden Africa board is of the opinion that:

(i) the Company and the Howden Africa Group will be able, in the ordinary course of business, to pay its debts for a period of 12 months after the date of this integrated annual report;

(ii) the assets of the Company and the Howden Africa Group will exceed the liabilities of the Company and the Howden Africa Group for a period of 12 months after the date of this notice of AGM. For this purpose, assets and liabilities will be recognised and measured in line with accounting policies used in the latest audited annual group financial statements; and

(iii) the working capital, share capital and reserves of the Company and Howden Africa Group will be adequate for a period of 12 months after the date of this notice of AGM.

The directors have no specific intention, at present, for the Company or its subsidiaries to acquire any of the Company's shares but consider that such a general authority should be put in place should an opportunity present itself to do so during the year, which is in the best interests of the Company and its shareholders.

The Listings Requirements require, in terms of section 11.26, the following disclosures, which appear elsewhere in this integrated annual report:

- Major shareholders on page 92
- Share capital of the Company on page 91

In order to be adopted this special resolution requires the support of more than 75% of the voting rights exercised on the resolution.

MATERIAL CHANGES

Other than the facts and developments noted in this integrated annual report, there have been no material changes in the financial or trading position of the Company and its subsidiaries since the date of signing the audit report and up to the date of this notice of AGM.

DIRECTORS' RESPONSIBILITY STATEMENT

The directors of the Company, collectively and individually, accept full responsibility for the accuracy of information relating to these special resolutions and certify that, to the best of their knowledge, no facts have been omitted that would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that these special resolutions contain all information required by law and by the Listings Requirements.

Special resolution 2: Increase in directors' fees

Resolved that in terms of section 66 (9) of the Act, the fees payable to non-executive directors be and are hereby restructured and increased as set out on page 107 with effect from 1 July 2017.

EXPLANATORY NOTES

The reason for and effect of this special resolution is to grant the Company the authority to pay fees to non-executive directors for their services as directors over the next 12 month period.

In order to be adopted this special resolution requires the support of more than 75% of the voting rights exercised on the resolution.

R'000	Proposed 2017 – 2018 fee increase (%)	July 2016 – 2017
Quarterly fee		
Independent non-executive directors	**7**	R9 720.96
Non-executive directors	**0**	R0
Committee chairperson fee		
(per meeting) (paid in addition to the committee member fee)		
Audit and Risk Committee	**7**	R7 291.00
Remuneration, Nomination, Social and Ethics Committee	**7**	R4861.05
Lead independent director fee		
(per meeting)	**7**	R0
Board of directors		
(per meeting)		
Member fee — Independent non-executive directors	**7**	R19 443.00
Member fee — Non-executive directors	**7**	R0
Audit and Risk Committee		
(per meeting)		
Member fee	**7**	R19 443.00
Remuneration, Nomination, Social and Ethics Committee		
(per meeting)		
Member fee — Independent non-executive directors	**7**	R19 443.00
Member fee — Non-executive directors	**0**	R0

Special resolution 3:
Approval for the Company and its subsidiaries to grant financial assistance in terms of section 44 of the Companies Act

Resolved that, in terms of section 44 of the Act, the board may, subject to the Company's MOI and the Act, at any time during the period of two years beginning on the date of adopting this special resolution, authorise the Company and any of its subsidiaries to provide direct or indirect financial assistance, whether by way of loan, guarantee, the provision of security or otherwise, to any person for any purpose, or in connection with, the subscription of any option, or any securities, issued or to be issued by the Company or a related or inter-related company, or for the purchase of any securities of the Company or a related or inter-related company, for such amounts and on such terms as the board may determine.

EXPLANATORY NOTES

The Company would like the ability to provide financial assistance, if necessary, to subscribe for options or securities of the Company or another company related or inter-related to it. Under the Act, the Company will however require the special resolution referred to above to be adopted. It is difficult to foresee the exact details of financial assistance that the Company may be required to provide over the upcoming months. It is essential however that the Company is able to organise effectively its internal financial administration. For these reasons it is necessary to obtain the approval of shareholders as set out in special resolution number 3.

Section 44 provides that the particular financial assistance must be provided only pursuant to a special resolution of shareholders, adopted within the previous two years, which approved, such assistance either for the specific recipient, or generally for a category of potential recipients, and the specific recipient falls within that category and the board is satisfied that:

(i) immediately after providing the financial assistance, the Company would satisfy the solvency and liquidity test (as contemplated in the Act); and

(ii) the terms under which the financial assistance is proposed to be given are fair and reasonable to the Company.

This resolution empowers the Company to meet its B-BBEE Scorecard requirements for Supplier and Enterprise Development.

In order to be adopted this special resolution requires the support of more than 75% of the voting rights exercised on the resolution.

Special resolution 4:
Approval for the company and its subsidiaries to grant financial assistance to a related or interrelated company in terms of section 45 of the Companies Act

Resolved that, the Company and/or any of its subsidiaries, be authorised, in terms of and subject to the provisions of section 45 of the Act, at any time during the period of two years beginning on the date of adopting this special resolution, to provide direct or indirect financial assistance by way of a loan, guarantee, provision of security or otherwise to any companies or corporations that are related or interrelated to the Company and/or its subsidiaries, on terms and conditions which the directors of the relevant company may determine.

EXPLANATORY NOTES

In accordance with section 45 of the Act, the Company may not provide financial assistance as contemplated in that section without a special resolution. The reason for proposing the special resolution is to permit and authorise the Company and/or any of its subsidiaries to authorise the Company to provide direct or indirect financial assistance, by way of loan, guarantee of a loan or other obligation or securing of debt or other obligation, to any companies or corporations that are related or interrelated to the Company and/or its subsidiaries. This will, inter alia, ensure that the Company's subsidiaries and other related and interrelated companies and corporations have access to financing and/or financial assistance from the Company (as opposed to only banks and other third-party financiers), without first having to obtain this approval of shareholders.

It is difficult to anticipate the exact financial assistance that the Company and/or its subsidiaries may be required to provide over the next two years. It is essential, however, that the Company is able to organise effectively its internal financial administration. For these reasons and because it would be impractical and difficult to obtain shareholders' approval every time the Company and its subsidiaries wish to provide financial assistance as contemplated above, it is necessary to obtain the general approval of shareholders, as set out herein. If approved, this general authority will expire at the end of two years.

This special resolution does not authorise the provision of financial assistance to a director or prescribed officer of the Company.

Special resolution 5: Approval for changes to the Memorandum of Incorporation

Resolved that the company's Memorandum of Incorporation (MOI) be and is hereby amended:

Amend clause 33.1 of the Company's MOI to reflect:

> "33.1 For an ordinary resolution to be adopted at a shareholders' meeting, it must be supported by more than 50% of the voting rights exercised on the resolution, as provided by 65(7)."

EXPLANATORY NOTES

The reason for passing this resolution is to align the Company's MOI with the Companies Act (the Act).

In terms of the provisions of the Company's existing MOI, "For an ordinary resolution to be adopted at a shareholder's meeting, it must be supported by the holders of at least 50% of the voting rights exercised on the resolution, as provided in section 65(7)."

However, it is noted that section 65(7) states that "For an ordinary resolution to be approved by shareholders, it must be supported by more than 50% of the voting rights exercised on the resolution".

In order to be adopted, this special resolution requires the support of more than 75% of the voting rights exercised on the resolution.

VOTING AND PROXIES

All shareholders will be entitled to attend, speak and vote at the general meeting.

Each shareholder is entitled to appoint one or more proxies (who need not be shareholders of the Company), to attend, participate in, speak and vote in place of that shareholder at the general meeting. The person appointed need not be a shareholder/member of the Company. All meeting participants will be required to provide identification reasonably satisfactory to the chairman of the meeting.

A shareholder is entitled to appoint more than one proxy to exercise voting rights attached to different shares held by such shareholder.

A form of proxy is attached for any shareholder who is unable to attend the general meeting, but wishes to be represented thereat. It is requested that the completed form of proxy must be deposited at the office of the Company's transfer secretaries, Link Market Services South Africa (Pty) Ltd, 13th Floor, 19 Ameshoff Street, Braamfontein, Johannesburg, Gauteng, South Africa, by no later that 13h30 on 29 May 2018. Should your forms of proxy not be returned to the transfer secretary by the aforesaid date and time, the proxy may be handed to the chairman of the AGM at any time before the commencement of the AGM.

Shareholders who have not dematerialised their shares in the Company and therefore hold a share certificate, must complete the attached form of proxy as per the instructions therein and lodge it with the transfer secretaries of the Company (as detailed in the previous paragraph) to be received by not later than 13h30 on 29 May 2018.

Shareholders who have already dematerialised their shares in the Company, and the shares are in their "own name", must complete the attached form of proxy as per instructions therein and lodge it with the transfer secretaries (detailed above) to be received by not later than 13h30 on 29 May 2018.

Shareholders who have dematerialised their shares, other than those members who have dematerialised their shares with "own name" registration, who are unable to attend the meeting but wish to be represented thereat, must contact their central securities depository participant (CSDP) or broker (as the case may be) in the manner and time stipulated in the agreement between that member and the CSDP/broker (as the case may be) to furnish the CSDP or broker (as the case may be) with their voting instructions and in the event that such members wish to attend the meeting, to obtain the necessary letter of representation from their CSDP/broker.

In compliance with the provisions of the Act, the Company intends to offer shareholders reasonable access, through electronic facilities, to participate in the AGM by means of a conference call facility. Shareholders will be able to listen to the proceedings and raise questions should they wish to do so and are invited to indicate their intention to make use of this facility by applying in writing (including details as to how the shareholder or representative can be contacted) to the company secretary at the address set out on the inside back cover of this the integrated annual report. The written application is to be received by the company secretary at least ten business days prior to the date of the AGM, namely Wednesday, 16 May 2018. The company secretary will, by way of e-mail, provide information enabling participation to those shareholders who have made application. Voting will not be possible via the electronic facility and shareholders wishing to exercise their voting rights at the AGM are required to be represented at the meeting either in person, by proxy or by letter of representation as provided for in the notice of AGM.

Shareholders must note that access to electronic communication will be at their expense.

All meeting participants will be required to provide identification reasonably satisfactory to the chairman of the meeting.

Every member present in person or by proxy and entitled to vote at the general meeting of the Company will, on a show of hands, have one vote only, irrespective of the number of shares that member holds. In a poll, every member will be entitled to that proportion of total votes in the company which the aggregate amount of the nominal value of shares held by that member bears to the aggregate amount of the nominal value of all shares issued by the Company.

Members registered in their own name are members who elected not to participate in the issuer-sponsored nominee programme and who appointed Computershare Custodial Services as their CSDP with the express instruction that their uncertified shares be registered in the electronic sub-register of members in their own names.

A proxy appointment made must be in writing, dated and signed by the shareholder and will remain valid only until the end of the meeting to be held on 30 May 2018, subject to section 58(5) of the Act dealing with revocation of proxies.

Irrespective of the form of instrument used to appoint a proxy:

(a) The appointment is suspended at any time and to the extent that the shareholder chooses to act directly and in person in exercising any rights as a shareholder

(b) The appointment is revocable unless the proxy appointment expressly states otherwise

(c) If the appointment is revocable, a shareholder may revoke the proxy appointment by:

  (i) cancelling it in writing, or making a later inconsistent appointment of a proxy; and

  (ii) delivering a copy of the revocation instrument to the proxy, and to the Company

Revocation of a proxy appointment constitutes a complete and final cancellation of the proxy's authority to act on behalf of the shareholder as of the later of:

(a) The date stated in the revocation instrument, if any; or

(b) The date on which the revocation instrument was delivered to the proxy and the Company.

If the instrument appointing a proxy or proxies has been delivered to the Company, as long as that appointment remains in effect, any notice required to be delivered by the Company to the shareholder must be delivered by the Company to:

(a) The shareholder; or

(b) The proxy or proxies, if the shareholder has:

  (i) directed the Company to do so, in writing; and

  (ii) paid any reasonable fee charged by the Company for doing so.

A proxy is entitled to exercise, or abstain from exercising, any voting right of the shareholder without direction, except to the extent that the MOI, or instrument appointing the proxy, provides otherwise.

INTERPRETATION OF THIS NOTICE

All references in this notice of general meeting of shareholders to the Listings Requirements mean the Listings Requirements of the JSE, as amended from time to time and as interpreted and applied or disapplied by the JSE.

All references in this notice of AGM of shareholders to the "Act" means the Companies Act, No. 71 of 2008, as amended.

By order of the board

HOWDEN AFRICA HOLDINGS LIMITED

CR Masson
Group company secretary

Johannesburg
28 March 2018

CORPORATE INFORMATION

HOWDEN AFRICA HOLDINGS LIMITED

(Incorporated in the Republic of South Africa)
(Registration number 1996/002982/06)
JSE code: HWN ISIN: ZAE000010583

REGISTERED OFFICE

1a Booysens Road
Booysens
South Africa 2019
(PO Box 2239, Johannesburg, 2000)
T +27 11 240 4000
F +27 11 493 0545

TRANSFER SECRETARIES

Link Market Services South Africa (Proprietary) Limited
13th Floor, 19 Ameshoff Street
Braamfontein, Johannesburg
(PO Box 4844, Marshalltown 2000)

SPONSOR

Pricewaterhousecoopers Corporate Finance
(Proprietary) Limited
2 Eglin Road
Sunninghill
2157

EXTERNAL AUDITORS

Ernst & Young Inc.
102 Rivonia Road
Sandton
2194

SHAREHOLDER CONTACT INFORMATION

Investor Relations
Craig Masson
Company Secretary
T +27 11 240 4000
E craig.masson@howden.co.za

FORM OF PROXY

HOWDEN AFRICA HOLDINGS LIMITED

(Incorporated in the Republic of South Africa) | Registration number 1996/002982/06) | (the Company) | JSE Code: HWN | ISIN Code: ZAE 000010583

FORM OF PROXY: ANNUAL GENERAL MEETING OF THE COMPANY TO BE HELD AT 13h30 ON 30 MAY 2018 AT 1a BOOYSENS ROAD, BOOYSENS, JOHANNESBURG

For use by shareholders who:

- Hold shares in certificated form.
- Have dematerialised their shares (i.e. have replaced the paper share certificates representing the shares with electronic records of ownership under the JSE's electronic settlement system (Strate Limited) and are recorded in the sub-register in "own name" dematerialised form) (i.e. shareholders who have specifically instructed their central securities depository participant (CSDP) to hold their shares in their own name).

If you are unable to attend the general meeting of members convened for 13h30 on Wednesday, 30 May 2018 and wish to be represented thereat, you must complete and return this form of proxy as soon as possible, but in any event to be received by not later than 13h30 on 24 May 2018. A form of proxy is attached for any shareholder who is unable to attend the general meeting, but wishes to be represented thereat. It is requested that the completed form of proxy must be deposited at the office of the Company's transfer secretaries, Link Market Services South Africa (Pty) Ltd, 13th Floor, 19 Ameshoff Street, Braamfontein, Johannesburg, Gauteng, South Africa, by no later that 13h30 on 29 May 2018. Should your forms of proxy not be returned to the transfer secretary by the aforesaid date and time, the proxy may be handed to the chairman of the AGM at any time before the commencement of the AGM.

Shareholders who have dematerialised their shares and are not registered as "own name" dematerialised shareholders and who wish to attend the general meeting, must instruct their CSDP or broker to provide them with the relevant letter of representation to enable them to attend such meetings, or, alternatively, should they wish to vote but not attend the general meeting they must provide their CSDP/broker with their voting instructions in terms of the custody agreement between them and the CSDP/broker in the stipulated manner and cut-off time.

I/We (please print full names) ______________________________

of (address) ______________________________

Telephone number ______________________ Cellular phone number ______________________

Email address ______________________________

Being the holder(s) of ______________________ shares in the issued capital of the Company do hereby appoint:

______________________ of ______________________ or failing him,

______________________ of ______________________ or failing him,

______________________ of ______________________ or failing him,

him the chairman of the general meeting, as my/our proxy to act for me/us at the general meeting of the Company to be held on Wednesday, 30 May 2018 at 13h30 and at any adjournment thereof, at the Company's registered office, 1a Booysens Road, Booysens, Johannesburg and to vote for me/us on my/our behalf in respect of the under mentioned resolutions in accordance with the following instructions:

Number of votes (one per share):	For	Against	Abstain
ORDINARY RESOLUTIONS			
1. Adoption of annual financial statements for the year ending 31 December 2017			
2. Appointment of external auditors			
3. 3.1 Appointment of Suleman Badat as a member and the chairman of the Audit and Risk Committee			
3.2 Re-appointment of Morongwe Malebye as a member of the Audit and Risk Committee			
3.3 Re-appointment of Humphrey Mathe as a member of the Audit and Risk Committee			
4. Non-binding advisory endorsement of the Company's remuneration policy and implementation report			
5. 5.1 Re-election of Ian Brander			
5.2 Re-election of James Brown			
6. Election of Suleman Badat			
7. Control of 15% of unissued share capital			
8. General authority to issue shares for cash			
SPECIAL RESOLUTIONS			
1. General approval for the acquisition of its shares by the Company and/or its subsidiaries			
2. Increase of non-executive director fees			
3. Approval to grant financial assistance in terms of Section 44 of the Companies Act			
4. Approval to grant financial assistance to a related or interrelated company in terms of Sections 45 of the Companies Act			
5. Approval for changes to the Memorandum of Incorporation			

Signed at ______________________ on ______________________ 2018

Signature ______________________ Assisted by me ______________________ (where applicable)

Except as instructed above or if no instructions are inserted above, my proxy may vote as he thinks fit.

NOTES TO FORM OF PROXY

INSTRUCTIONS ON SIGNING AND LODGING THE PROXY FORM

1. A deletion of any printed matter and completion of any blank spaces need not be signed or initialled. Any other alteration must be signed, not initialled.
2. The chairman will be entitled to decline to accept the authority of the signatory:
   a) under a power of attorney; or
   b) on behalf of a company, if the power of attorney or authority has not been deposited at the office of the Company's transfer secretaries, Link Market Services South Africa (Pty) Limited, 13th Floor, 19 Ameshoff Street, Braamfontein, Republic of South Africa (PO Box 4844, Johannesburg, 2000) by not later than 13h30 on 29 May 2018.
3. The signatory may insert the name(s) of any person(s) whom the signatory wishes to appoint as his/her proxy in the blank spaces provided.
4. When there are joint holders of shares and if more than one of those joint holders is present or represented, the person whose name stands first in the register in respect of such shares of his/her proxy, as the case may be, will alone be entitled to vote in respect thereof.
5. The completion and lodging of this form of proxy will be not preclude the signatory from attending the meeting and speaking and voting in person to the exclusion of any proxy appointed in terms hereof should such signatory wish to do so.
6. A form of proxy is attached for any shareholder who is unable to attend the general meeting, but wishes to be represented thereat. It is requested that the completed form of proxy must be deposited at the office of the Company's transfer secretaries, Link Market Services South Africa (Pty) Ltd, 13th Floor, 19 Ameshoff Street, Braamfontein, Johannesburg, Gauteng, South Africa, by no later that 13h30 on 29 May 2018. Should your forms of proxy not be returned to the transfer secretary by the aforesaid date and time, the proxy may be handed to the chairman of the AGM at any time before the commencement of the AGM.
7. If the signatory does not indicate in the appropriate place on the face of this form how he/she wishes to vote on a particular resolution, the proxy will be entitled to vote as he/she deems fit on that resolution.
8. The chairman of the general meeting may reject any proxy form which is completed other than in accordance with these instructions, provided that he may accept such proxy forms where he is satisfied on the manner in which a member wishes to vote.

SUMMARY IN TERMS OF SECTION 58(8)(B)(I) OF THE COMPANIES ACT 71 OF 2008 (ACT), AS AMENDED

Section 58(8)(b)(i) provides that if a company supplies a form of instrument for appointing a proxy, the form of proxy supplied by the company to appoint a proxy must bear a reasonably prominent summary of the rights established by section 58 of the Act, which is set out below:

- A shareholder of a company may, at any time, appoint any individual, including an individual who is not a shareholder of that company, as a proxy, among other things, to participate in, and speak and vote at a shareholders' meeting on behalf of the shareholder.
- A shareholder may appoint two or more persons concurrently as proxies, and may appoint more than one proxy to exercise voting rights attached to different securities held by the shareholder.
- A proxy may delegate the proxy's authority to act on behalf of the shareholder to another person.
- A proxy appointment must be in writing, dated and signed by the shareholder; and remains valid only until the end of the meeting at which it was intended to be used, unless the proxy appointment is revoked, in which case the proxy appointment will be cancelled with effect from such revocation.
- A shareholder may revoke a proxy appointment in writing.
- A proxy appointment is suspended at any time and to the extent that the shareholder chooses to act directly and in person in exercising any rights as a shareholder.
- A proxy is entitled to exercise, or abstain from exercising, any voting right of the shareholder without direction.

GLOSSARY

AGM
Annual general meeting

ARC
Audit and Risk Committee

B-BBEE
Broad-based Black Economic Empowerment

CBS
Colfax Business System

CEO
Chief Executive Officer

CFO
Chief Financial Officer

COO
Chief Operating Officer

CSDP
Central Securities Depository Participant

DDA
Data-driven Advantage

DTI
Department of Trade and Industry

EHS
Environmental, health and safety

EME
Exempted Micro Enterprise

EXCO
Executive Committee

HDSA
Historically Disadvantaged South Africans

HVAC
Heat, ventilation and air-conditioning

ISO
International Organisation for Standardization

JSE
Johannesburg Stock Exchange

KAIZEN
Japanese for “improvement”

Kℓ
Kilolitre

KPI
Key performance indicator

KWh
Kilowatt hour

LID
Lead Independent Director

LTIP
Long-term incentive plan

NCPC-SA
National Cleaner Production Centre South Africa

OTD
On-time delivery

PPPFA
Preferential Procurement Policy Framework Act No. 5 of 2000

QSE
Qualifying Small Enterprise

RENSEC
Remuneration, Nomination, Social and Ethics Committee

TRIR
Total Recordable Incident Rate

VoC
Voice of the Customer

Revolving Around You™

HOWDEN.COM