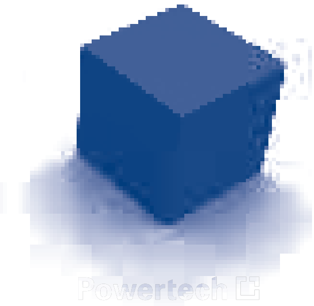
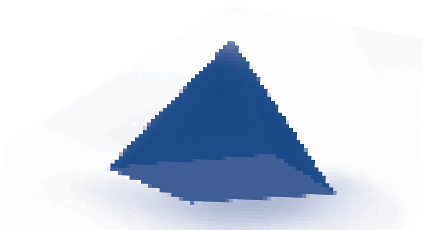
the power of three³







ALTECH
Leading Technologies: Touching Lives

ALTRON

# UNAUDITED CONSOLIDATED INTERIM RESULTS

FOR THE SIX MONTHS ENDED 31 AUGUST 2009

the power to grow$^3$

ALLIED ELECTRONICS CORPORATION LIMITED
(Registration number 1947/024583/06)
(Incorporated in the Republic of South Africa)
Share code: ATN ISIN: ZAE000029658
Share code: ATNP ISIN: ZAE000029666

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# Condensed consolidated statement of comprehensive income

| R million | % Change | Six months ended 31 August 2009 (Unaudited) | Six months ended 31 August 2008 (Unaudited) | Year ended 28 February 2009 (Audited) |
|---|---|---|---|---|
| **Revenue** | (8) | **12 055** | 13 169 | 24 768 |
| **Operating profit before capital items** | (35) | **731** | 1 123 | 1 799 |
| Capital items (Note 1) | | **(50)** | 57 | (21) |
| **Results from operating activities** | | **681** | 1 180 | 1 778 |
| Finance income | | **78** | 122 | 184 |
| Finance costs | | **(121)** | (160) | (292) |
| Share of profit of equity accounted investments | | **1** | 2 | 3 |
| **Profit before taxation** | | **639** | 1 144 | 1 673 |
| Taxation | | **(183)** | (292) | (466) |
| STC | | **(51)** | (52) | (58) |
| **Profit for the period** | (49) | **405** | 800 | 1 149 |
| **Other comprehensive income** | | | | |
| Foreign currency translation differences for foreign operations | | **(351)** | (85) | 38 |
| Fair value adjustment of joint venture on step acquisition | | **–** | 41 | 54 |
| Effective portion of changes in fair value of cash flow hedges | | **–** | 1 | (21) |
| Fair value adjustment on available-for-sale investments | | **–** | – | (21) |
| Income tax on comprehensive income | | **–** | – | 9 |
| **Other comprehensive income for the period, net of income tax** | | **(351)** | (43) | 59 |
| **Total comprehensive income for the period** | | **54** | 757 | 1 208 |
| **Profit attributable to:** | | | | |
| Minority interest | | **162** | 146 | 314 |
| Altron equity holders | | **243** | 654 | 835 |
| **Profit for the period** | | **405** | 800 | 1 149 |
| **Total comprehensive income attributable to:** | | | | |
| Minority interest | | **24** | 111 | 318 |
| Altron equity holders | | **30** | 646 | 890 |
| **Total comprehensive income for the period** | | **54** | 757 | 1 208 |
| **Basic earnings per share (cents)** | (63) | **77** | 209 | 266 |
| **Diluted basic earnings per share (cents)** | (60) | **75** | 188 | 248 |

# Notes

| | % Change | Six months ended 31 August 2009 (Unaudited) | Six months ended 31 August 2008 (Unaudited) | Year ended 28 February 2009 (Audited) |
|---|---|---|---|---|
| **Headline earnings per share (cents)** | (51) | **93** | 192 | 275 |
| **Adjusted headline earnings per share (cents)** | (49) | **103** | 200 | 295 |
| **Diluted headline earnings per share (cents)** | (47) | **91** | 171 | 257 |
| **Adjusted diluted headline earnings per share (cents)** | (44) | **100** | 179 | 277 |

**Basis of preparation**

The unaudited interim financial results have been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRS) and its interpretations adopted by the International Accounting Standards Board (IASB) in issue and effective at 31 August 2009, the disclosure requirements of IAS 34 – Interim Financial Reporting and in compliance with the Listings Requirements of the JSE Limited.

The accounting policies used in the preparation of these interim results are consistent with those used in the annual financial statements for the year ended 28 February 2009.

| | R million | | | |
|---|---|---|---|---|
| 1. | **Capital items** | | | |
| | Net gain/(loss) on disposal of property, plant and equipment | **1** | (1) | 23 |
| | Impairment of goodwill | **(51)** | – | (90) |
| | Impairment of property, plant and equipment | **–** | – | (12) |
| | Net gain on disposal of businesses and investments | **–** | 58 | 58 |
| | | **(50)** | 57 | (21) |
| 2. | **Reconciliation between attributable earnings and headline earnings** | | | |
| | Attributable to Altron equity holders | **243** | 654 | 835 |
| | Capital items – gross | **50** | (57) | 21 |
| | Tax effect of capital items | **–** | 2 | 8 |
| | Minority interest in capital items | **–** | 1 | (3) |
| | Headline earnings | **293** | 600 | 861 |
| 3. | **Reconciliation between attributable earnings and diluted earnings** | | | |
| | Attributable to Altron equity holders | **243** | 654 | 835 |
| | Additional earnings attributable to BBBEE minorities in subsidiaries | **(3)** | (56) | (44) |
| | Minority interest in adjustments | **1** | 1 | 8 |
| | Additional earnings attributable to dilutive options at subsidiary level | **(4)** | (5) | (17) |
| | Diluted earnings | **237** | 594 | 782 |
| 4. | **Reconciliation between headline earnings and diluted headline earnings** | | | |
| | Headline earnings | **293** | 600 | 861 |
| | Additional earnings attributable to BBBEE minorities in subsidiaries | **(3)** | (56) | (41) |
| | Minority interest in adjustments | **1** | 1 | 8 |
| | Additional earnings attributable to dilutive options at subsidiary level | **(4)** | (5) | (17) |
| | Diluted headline earnings | **287** | 540 | 811 |
| 5. | **Reconciliation between headline earnings and adjusted headline earnings** | | | |
| | Adjusted headline earnings have been presented to demonstrate the impact of some accounting charges arising on acquisitions on the headline earnings of the group. Headline earnings are reconciled to adjusted headline earnings as follows: | | | |
| | Headline earnings | **293** | 600 | 861 |
| | Amortisation of intangibles arising on business acquisitions | **50** | 42 | 104 |
| | Tax effect of adjustments | **(12)** | (13) | (29) |
| | Minority interest in adjustments | **(7)** | (3) | (12) |
| | Adjusted headline earnings | **324** | 626 | 924 |
| 6. | **Reconciliation between diluted headline earnings and adjusted diluted headline earnings** | | | |
| | Diluted headline earnings | **287** | 540 | 811 |
| | Amortisation of intangibles arising on business acquisitions | **50** | 42 | 104 |
| | Tax effect of adjustments | **(12)** | (13) | (29) |
| | Minority interest in adjustments | **(7)** | (3) | (12) |
| | Adjusted diluted headline earnings | **318** | 566 | 874 |

Fully diluted earnings, diluted headline earnings and adjusted diluted headline earnings have been calculated in accordance with IAS 33 – Earnings per Share on the basis that:

- The recognition of the deferred sale of a 30% interest in Aberdare Cables to the Izingwe Consortium based on the assumption that the outstanding purchase price will be settled in cash for R80 million (comprising the empowerment funding obligation net of excess cash deposits of R27 million), adjusted for the dilutive effect of the option price at the Aberdare level and after taking into account the 10% investment in the Izingwe Consortium by Power Technologies (Pty) Limited.
- The recognition of the deferred sale of a 30% interest to Platina Venture Holdings (Pty) Limited in Altech Alcom Matomo based on the assumption that the internally financed purchase price will be settled in cash of R13 million, adjusted for the dilutive effect of the option at the Altech Alcom Matomo level.
- The earnings effect of dilutive options at Allied Technologies Limited level.

7. **Acquisitions of subsidiaries**

During the period the Altech group acquired a number of operations, namely 1 March 2009 – Fleetcall – the largest trunk two-way radio operator in South Africa, 1 March 2009 – Technology Concepts – an established internet technology services business and corporate internet service provider, 1 June 2009 – NuPay – a transaction service provider and switching company and 100% of the Altech Netstar franchisees in Nelspruit and Polokwane for an aggregate consideration of R190 million, of which R54 million is deferred.

The acquired businesses contributed revenue of R73 million and net profit after tax of R13 million to the group for the period ended 31 August 2009.

If the acquisitions had occurred on 1 March 2009, group revenue and net profit after tax before allocations would have increased by R24 million and R3 million respectively.These amounts have been calculated using the group's accounting policies and where purchase price allocations have been completed, by adjusting the results of the subsidiaries to reflect amortisation on the fair value adjustments to intangible assets from 1 March 2009, together with the consequential tax effects.

The purchase price allocations of Fleetcall, Technology Concepts and NuPay are in the process of being finalised.

| R million | Recognised values | Fair value adjustments | Carrying amount |
|---|---|---|---|
| Non-current assets | 32 | 23 | 55 |
| Current assets | 28 | – | 28 |
| Current liabilities | (27) | – | (27) |
| **Net identifiable assets and liabilities** | 33 | 23 | 56 |
| Excess of consideration to balance sheets before fair value adjustments | | | 134 |
| **Total consideration** | | | 190 |
| less attributable to minorities | | | (2) |
| less cash and cash equivalents in subsidiaries acquired | | | (7) |
| less deferred purchase consideration | | | (54) |
| **Cash outflow from the group on acquisition** | | | 127 |

8. **Disposal of Namltech South Africa, a division of Altech Information Technologies (Proprietary) Limited**

On 1 April 2009 the group disposed of the net assets of the Namltech South Africa division for R82,2 million to Gemalto. The net assets were shown as held for sale at 28 February 2009.

9. **Post-balance sheet events**

Altech together with its partner, Sameer has acquired significant bandwith capacity on the Seacom undersea cable system. Altech/Sameer has procured two STM-16s from Seacom (equivalent to 5 Gbps), for US$69,3 million payable by Altech and Sameer according to their 60%/40% shareholding over a number of years, with the option to upgrade within three years to double this capacity.

Seacom has, in return, invested in excess of US$20 million in capacity on the terrestrial fibre network of Kenya Data Networks, a subsidiary of the Altech group.

# Condensed consolidated balance sheets

| R million | 31 August 2009 (Unaudited) | 31 August 2008 (Unaudited) | 28 February 2009 (Audited) |
|---|---|---|---|
| **ASSETS** | | | |
| *Non-current assets* | **5 235** | 4 783 | 5 239 |
| Property, plant and equipment | **2 326** | 1 723 | 2 221 |
| Intangible assets including goodwill | **2 341** | 2 457 | 2 437 |
| Associates | **11** | 10 | 11 |
| Other investments | **285** | 302 | 267 |
| Rental finance advances | **57** | 88 | 73 |
| Deferred taxation | **215** | 203 | 230 |
| *Current assets* | **7 156** | 7 460 | 8 342 |
| Inventories | **2 037** | 2 818 | 2 364 |
| Trade and other receivables | **3 781** | 4 027 | 3 763 |
| Assets classified as held-for-sale | **–** | – | 107 |
| Cash and cash equivalents | **1 338** | 615 | 2 108 |
| **TOTAL ASSETS** | **12 391** | 12 243 | 13 581 |
| **EQUITY AND LIABILITIES** | | | |
| *Total equity* | **5 890** | 5 821 | 6 300 |
| *Non-current liabilities* | **1 305** | 1 107 | 1 346 |
| Loans | **1 054** | 860 | 1 056 |
| Empowerment funding obligation | **96** | 97 | 101 |
| Provisions | **14** | 18 | 25 |
| Deferred taxation | **141** | 132 | 164 |
| *Current liabilities* | **5 196** | 5 315 | 5 935 |
| Loans | **314** | 162 | 404 |
| Empowerment funding obligation | **11** | 18 | 11 |
| Bank overdraft | **367** | 148 | 928 |
| Trade and other payables | **4 034** | 4 445 | 4 138 |
| Provisions | **181** | 138 | 160 |
| Taxation payable | **289** | 404 | 266 |
| Liabilities classified as held-for-sale | **–** | – | 28 |
| **TOTAL EQUITY AND LIABILITIES** | **12 391** | 12 243 | 13 581 |
| **Net asset value per share (cents)** | **1 430** | 1 476 | 1 550 |

# Condensed consolidated statement of cash flows

| R million | Six months ended 31 August 2009 (Unaudited) | Six months ended 31 August 2008 (Unaudited) | Year ended 28 February 2009 (Audited) |
|---|---|---|---|
| **Cash flows from/(utilised in) operating activities** | **280** | (258) | 646 |
| Cash generated by operations | **956** | 1 345 | 2 278 |
| Changes in working capital | **127** | (617) | (232) |
| Net finance costs | **(43)** | (38) | (89) |
| Taxation paid | **(227)** | (317) | (666) |
| **Cash available from operating activities** | **813** | 373 | 1 291 |
| Dividends paid, including to minority shareholders | **(533)** | (631) | (645) |
| **Cash flows applied in investing activities** | **(574)** | (1 391) | (1 904) |
| **Cash flows from financing activities** | **97** | 23 | 345 |
| **Net decrease in cash and cash equivalents** | **(197)** | (1 626) | (913) |
| Cash and cash equivalents at the beginning of the period | **1 180** | 2 083 | 2 083 |
| Effect of exchange rate fluctuations on cash held | **(12)** | 10 | 10 |
| **Cash and cash equivalents at the end of the period** | **971** | 467 | 1 180 |

# Supplementary information

| R million | 31 August 2009 (Unaudited) | 31 August 2008 (Unaudited) | 28 February 2009 (Audited) |
|---|---|---|---|
| **Borrowings** | **1 475** | 1 137 | 1 572 |
| – interest bearing | **1 314** | 1 022 | 1 434 |
| – non-interest bearing | **54** | – | 26 |
| – BBBEE funding obligation | **107** | 115 | 112 |
| **Depreciation** | **157** | 152 | 298 |
| **Amortisation** | **63** | 42 | 140 |
| **Net foreign exchange (losses)/gains** | **(96)** | 36 | 53 |
| **Capital expenditure** | **330** | 280 | 1 008 |
| **Capital commitments** | **507** | 299 | 515 |
| (excluding Seacom see Post-balance sheet events note) | | | |
| **Lease commitments** | **737** | 566 | 609 |
| Payable within the next 12 months: | **156** | 153 | 171 |
| – property | **106** | 111 | 123 |
| – plant, equipment and vehicles | **50** | 42 | 48 |
| Payable thereafter: | **581** | 413 | 438 |
| – property | **530** | 400 | 380 |
| – plant, equipment and vehicles | **51** | 13 | 58 |
| **Unlisted investments (including Associates)** | | | |
| – Carrying amount | **296** | 312 | 278 |
| – Directors' valuation | **296** | 313 | 279 |
| **Weighted average number of shares (millions)** | **315** | 313 | 314 |
| – Ordinary shares | **102** | 102 | 102 |
| – Participating preference shares | **213** | 211 | 212 |
| **Diluted average number of shares (millions)** | **317** | 317 | 316 |
| **Shares in issue at end of period (millions)** | **315** | 314 | 314 |
| – ordinary shares | **102** | 102 | 102 |
| – participating preference shares | **213** | 212 | 212 |
| **Ratios** | | | |
| EBITA (Excluding capital items) | **794** | 1 165 | 1 939 |
| EBITDA (Excluding capital items) | **951** | 1 317 | 2 237 |
| EBITDA margin (%) | **7,9%** | 10,0% | 9,0% |
| ROCE | **19,9%** | 32,3% | 22,9% |
| ROE | **13,0%** | 27,2% | 18,3% |
| ROA | **13,9%** | 20,2% | 16,6% |
| RONA | **20,0%** | 32,6% | 23,0% |
| Borrowings ratio | **25,0%** | 19,5% | 25,0% |
| Current ratio | **1.4:1** | 1.4:1 | 1.4:1 |
| Acid test ratio | **1:1** | 0.9:1 | 1:1 |

# Segment analysis

The segment information has been prepared in accordance with IFRS 8 – Operating Segments (IFRS 8) which defines the requirements for the disclosure of financial information of an entity's operating segments.

IFRS 8 replaces IAS 14 – Segment Reporting. The standard requires segmentation based on the group's internal organisation and reporting of revenue and operating income based upon internal accounting presentation.

The segment revenues and operating profit generated by each of the Group's reportable segments are summarised as follows:

| R million | Six months to 31 August 2009 | Six months to 31 August 2008 | 12 months to 28 February 2009 |
|---|---|---|---|
| **Revenue** | | | |
| Powertech Cables Group | **1 913** | 3 513 | 5 692 |
| Powertech Transformers Group | **1 071** | 835 | 1 736 |
| Other Powertech Segments | **997** | 1 015 | 2 165 |
| **Powertech Group** | **3 981** | 5 363 | 9 593 |
| Bytes Technology Group UK Software | **1 260** | 1 293 | 1 780 |
| Bytes Document Solutions Group | **1 034** | 967 | 2 160 |
| Other Bytes Segments | **1 080** | 1 019 | 2 098 |
| **Bytes Group** | **3 374** | 3 279 | 6 038 |
| Altech Autopage Cellular | **2 796** | 2 573 | 5 264 |
| Altech UEC Group | **597** | 696 | 1 324 |
| Altech Netstar Group | **434** | 410 | 829 |
| Kenya Data Networks | **215** | 131 | 334 |
| Other Altech Segments | **690** | 723 | 1 413 |
| **Altech Group** | **4 732** | 4 533 | 9 164 |
| Corporate and financial services | **6** | 7 | 21 |
| Inter segment revenue | **(38)** | (13) | (48) |
| **Altron Group** | **12 055** | 13 169 | 24 768 |
| **Operating profit** | | | |
| Powertech Cables Group | **29** | 379 | 290 |
| Powertech Transformers Group | **71** | 99 | 166 |
| Other Powertech Segments | **58** | 84 | 162 |
| **Powertech Group** | **158** | 562 | 618 |
| Bytes Technology Group UK Software | **36** | 43 | 55 |
| Bytes Document Solutions Group | **74** | 84 | 197 |
| Other Bytes Segments | **24** | 62 | 129 |
| **Bytes Group** | **134** | 189 | 381 |
| Altech Autopage Cellular | **145** | 136 | 296 |
| Altech UEC Group | **18** | 33 | 33 |
| Altech Netstar Group | **138** | 120 | 251 |
| Kenya Data Networks | **97** | 52 | 158 |
| Other Altech Segments | **95** | 77 | 162 |
| **Altech Group** | **493** | 418 | 900 |
| Corporate and financial services | **(4)** | (4) | 4 |
| Inter segment revenue | | | |
| **Altron Group** | **781** | 1 165 | 1 903 |

Segment operating profit can be reconciled to Group operating profit before capital items as follows:

| R million | Six months to 31 August 2009 | Six months to 31 August 2008 | 12 months to 28 February 2009 |
|---|---|---|---|
| **Segment operating profit** | **781** | 1 165 | 1 903 |
| Reconciling items: | | | |
| Amortisation of intangibles raised on acquisitions | **(50)** | (42) | (104) |
| **Group operating profit before capital items** | **731** | 1 123 | 1 799 |

# Condensed consolidated statement of changes in equity

| R million | Share capital and premium | Treasury shares | Reserves | Retained earnings | Total | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|
| | Attributable to Altron equity holders | | | | | | |
| **Balance at 29 February 2008 (audited)** | 2 210 | (299) | (1 076) | 3 634 | **4 469** | 877 | **5 346** |
| ***Total comprehensive income for the period*** | | | | | | | |
| Profit for the period | – | – | – | 654 | **654** | 146 | **800** |
| ***Other comprehensive income*** | | | | | | | |
| Foreign currency translation differences for foreign operations | – | – | (51) | – | **(51)** | (34) | **(85)** |
| Effective portion of changes in fair value of cash flow hedges | – | – | 2 | – | **2** | (1) | **1** |
| Fair value adjustment of joint venture on step acquisition | – | – | 41 | – | **41** | – | **41** |
| Total other comprehensive income | – | – | (8) | – | **(8)** | (35) | **(43)** |
| Total comprehensive income for the period | – | – | (8) | 654 | **646** | 111 | **757** |
| ***Transactions with owners, recorded directly in equity*** | | | | | | | |
| ***Contributions by and distributions to owners*** | | | | | | | |
| Dividends to equity holders | – | – | – | (490) | **(490)** | (141) | **(631)** |
| Issue of share capital | 12 | – | – | – | **12** | – | **12** |
| Share–based payment transactions | – | – | 15 | – | **15** | – | **15** |
| Total contributions by and distributions to owners | 12 | – | 15 | (490) | **(463)** | (141) | **(604)** |
| ***Changes in ownership interests in subsidiaries*** | | | | | | | |
| Net subscription for 22% minority interest in Bytes SA | – | – | (16) | – | **(16)** | 168 | **152** |
| Minority interest on acquisition of subsidiaries | – | – | – | – | **–** | 170 | **170** |
| Total changes in ownership interests in subsidiaries | – | – | (16) | – | **(16)** | 338 | **322** |
| Total transactions with owners | 12 | – | (1) | (490) | **(479)** | 197 | **(282)** |
| **Balance at 31 August 2008 (unaudited)** | 2 222 | (299) | (1 085) | 3 798 | **4 636** | 1 185 | **5 821** |
| ***Total comprehensive income for the period*** | | | | | | | |
| Profit for the period | – | – | – | 181 | **181** | 168 | **349** |
| ***Other comprehensive income*** | | | | | | | |
| Foreign currency translation differences for foreign operations | – | – | 84 | – | **84** | 39 | **123** |
| Fair value adjustment of joint venture on step acquisition | – | – | 13 | – | **13** | – | **13** |
| Effective portion of changes in fair value of cash flow hedges | – | – | (16) | – | **(16)** | – | **(16)** |
| Statutory reserves of foreign subsidiaries | – | – | 59 | (59) | **–** | – | **–** |
| Fair value adjustment on available-for-sale investments | – | – | (18) | – | **(18)** | – | **(18)** |
| Total other comprehensive income | – | – | 122 | (59) | **63** | 39 | **102** |
| Total comprehensive income for the period | – | – | 122 | 122 | **244** | 207 | **451** |

| R million | Share capital and premium | Treasury shares | Reserves | Retained earnings | Total | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|
| | Attributable to Altron equity holders | | | | | | |
| ***Transactions with owners, recorded directly in equity*** | | | | | | | |
| ***Contributions by and distributions to owners*** | | | | | | | |
| Dividends to equity holders | – | – | – | – | **–** | (14) | **(14)** |
| Issue of share capital | 6 | – | – | – | **6** | 1 | **7** |
| Share-based payment transactions | – | – | (1) | – | **(1)** | 3 | **2** |
| Total contributions by and distributions to owners | 6 | – | (1) | – | **5** | (10) | **(5)** |
| ***Changes in ownership interests in subsidiaries*** | | | | | | | |
| Subscription by minority shareholders on acquisition of subsidiary | – | – | – | – | **–** | 79 | **79** |
| Minority interest on acquisition of subsidiaries | – | – | – | – | **–** | (28) | **(28)** |
| Change in shareholding of subsidiaries | – | – | (12) | – | **(12)** | (6) | **(18)** |
| Total changes in ownership interests in subsidiaries | – | – | (12) | – | **(12)** | 45 | **33** |
| Total transactions with owners | 6 | – | (13) | – | **(7)** | 35 | **28** |
| **Balance at 28 February 2009 (audited)** | 2 228 | (299) | (976) | 3 920 | **4 873** | 1 427 | **6 300** |
| ***Total comprehensive income for the period*** | | | | | | | |
| Profit for the period | – | – | – | 243 | **243** | 162 | **405** |
| ***Other comprehensive income*** | | | | | | | |
| Foreign currency translation differences for foreign operations | – | – | (213) | – | **(213)** | (138) | **(351)** |
| Total other comprehensive income | – | – | (213) | – | **(213)** | (138) | **(351)** |
| Total comprehensive income for the period | – | – | (213) | 243 | **30** | 24 | **54** |
| ***Transactions with owners, recorded directly in equity*** | | | | | | | |
| ***Contributions by and distributions to owners*** | | | | | | | |
| Dividends to equity holders | – | – | – | (375) | **(375)** | (158) | **(533)** |
| Issue of share capital | 7 | – | – | – | **7** | – | **7** |
| Share-based payment transactions | – | – | 10 | – | **10** | 3 | **13** |
| Total contributions by and distributions to owners | 7 | – | 10 | (375) | **(358)** | (155) | **(513)** |
| ***Changes in ownership interests in subsidiaries*** | | | | | | | |
| Change in shareholding of subsidiaries | – | – | (39) | – | **(39)** | 88 | **49** |
| Total changes in ownership interests in subsidiaries | – | – | (39) | – | **(39)** | 88 | **49** |
| Total transactions with owners | 7 | – | (29) | (375) | **(397)** | (67) | **(464)** |
| **Balance at 31 August 2009 (unaudited)** | 2 235 | (299) | (1 218) | 3 788 | **4 506** | 1 384 | **5 890** |

# Commentary

## Message to our shareholders

Following a challenging six months, Altron reported interim financial results for the half year ended 31 August 2009 which reflect a decline in revenue of 8% from R13.2 billion to R12.1 billion compared to the prior period. EBITDA declined by 28% with EBITDA margins declining from 10.0% to 7.9%. As a result of lower finance income and greater earnings attributable to minorities due to the increased contribution from Altech East Africa as well as the Powertech Transformers BBBEE transaction – adjusted diluted headline earnings per share declined by 44%. This level of decline represents the comparison between what Altron believes is the bottom of the cycle and the peak that we saw in the first half of last year.

**Business environment**

During the first calendar quarter of 2009, the South African economy moved into an official recession for the first time since the early 1990s. While the easing of monetary policy has seen progressive interest rate cuts since December 2008, the impact of the interest rate cycle's lag effect of between twelve and eighteen months has meant that property prices remained subdued, building and construction activity continued to decrease while consumer demand was weak.

The slowdown in demand in the building and construction industry has been particularly evident in the residential sector and to a lesser degree in the commercial sector. The increase in the US$ copper price since March has been offset to a degree by the appreciation of the rand, while supply in the local power cables market currently exceeds demand, creating substantial pricing pressures in that market.

The traditional infrastructure market has continued to generate good sales, and while this market is expected to remain robust in the medium term, certain parastatal customers are facing funding constraints and this may well have a detrimental effect on either the timing or quantum of capital expenditure programmes. There has also been a marked reduction in demand from the mining sector following lower commodity prices and funding constraints, resulting in mining capital expenditure being curtailed. As has been mentioned previously, our focus in operating in these challenging market sectors has been on internally driven programmes of cost reduction, working capital management and a cautious approach to further capital expenditure and acquisitions. Significant progress has been made vis a vis these initiatives which will strongly position Powertech when markets recover.

Local financial and retail institutions continue to trade under difficult conditions. Consequently the information technology market is operating in an environment where there is strong competition and heightened pressure on margins which is reflected in the Bytes results.

Notwithstanding the above, certain markets that we serve, particularly through Altech, remain robust and provide good opportunity for those companies with a competitive strategic position. It is anticipated that the further development of broadband technologies will open up new opportunities for the Altron group. The landing of the submarine cable along the East African coast and Altech's recently announced strategic alliance with Seacom and investment in TEAMS has opened up exciting opportunities for Altech's East African investments and should facilitate a significant increase in internet penetration in that region.

**Financial overview**

The Altron group's results for the half year ended 31 August 2009 reflect the slowdown in the markets served by Powertech and the margin pressure at Bytes, partially offset by a strong performance from Altech. Revenue decreased by 8% to R12.1 billion from R13.2 billion following a 26% decline in Powertech's revenue, offset by small increases in both Bytes' and Altech's revenues. The decline in EBITDA of 28% from R1 317 million to R951 million and the EBITDA margin decrease from 10.0% in the prior year to 7.9%, reflects divergent performances in the three underlying groups. Altech achieved a significant improvement in its EBITDA on the back of a strong annuity income base and the higher profitability levels achieved from recent acquisitions. Bytes' EBITDA was down 25% due to margin pressure in its markets and Powertech's EBITDA fell by 65% as a result of substantially lower demand levels and severe pricing pressures.

All operations were negatively affected by the appreciation of the rand, resulting in a R96 million foreign exchange loss for the group compared to a gain of R36 million in the comparable prior period. Powertech was particularly impacted as R55 million of this loss was applicable to its operations.

The decline in EBITDA margins combined with the change in net finance expenses and an increased profit attributable to minorities resulted in headline earnings per share declining by 51% to 93 cents, while adjusted diluted headline earnings per share, regarded by management as the most meaningful assessment of the underlying performance, decreased by 44% to 100 cents. Following disappointing performances in the first half of the year by Powertech Calidus and the Bytes UK Xerox operations, goodwill balances have been impaired by R21 million and R30 million, respectively. This impairment led to earnings per share declining by 63% to 77 cents.

Focus on working capital management continued during the review period, particularly at Powertech where the cables operation released approximately R250 million from its investment in working capital. The group's overall net working capital days decreased to 19 days from 21 days at the end of the prior year, releasing R127 million on a consolidated basis. The cash position at the half year was R971 million with a net debt position of R504 million. The group's return on equity for the six months was 13.0% and return on capital employed was 19.9%.

**Subsidiary reviews**

**Altech** reported good results for the first six months of the year despite a recessionary economy. Revenue increased by 4% to R4.7 billion. Operating margins increased from 9.0% to 10.1%, reflecting good profitability levels at most of its operations, a higher profit margin achieved by its recent acquisitions, and the elimination of the Altech NamiTech South Africa losses following its disposal on 1 April 2009.

Operating profit and EBITDA rose by 17% and 19%, respectively. Headline earnings per share increased by 12% and adjusted headline earnings per share increased by 13%.

Altech Autopage Cellular performed well showing increases in both revenue and operating profit. Operating margins have been maintained due to careful cost controls and a well controlled debtors' book.

Altech Netstar achieved revenue growth and further improved its operating margin despite the decline in new car sales associated with the economic recession. The fleet management business has also seen an improvement in operating margins, following the consolidation of the Altech Netstar and ComTech fleet management businesses.

Altech UEC produced somewhat disappointing results largely as a result of ongoing pressures on revenue and profits due to the slower than expected deployment of decoders in the Indian market, as well as the strengthening of the rand. Revenue decreased by 14% compared to the prior period, but prospects for the second half of the year remain positive.

Altech East Africa continues to perform in line with expectations and is a key focus area for management. During the review period Altech increased its stake in Kenya Data Networks (KDN) from 51% to 61% as a result of providing a greater proportion of funding required for capital expenditure than its partner, Sameer ICT, as well as the acquisition of certain additional shares in KDN from a minority shareholder. After the balance sheet date, Altech has also entered into a strategic alliance with Seacom for the acquisition of bandwidth capacity on each other's cable systems. The agreement has resulted in Altech purchasing two STM-16s from Seacom (equivalent to 5Gbps), which in turn has purchased $20 million of capacity on the terrestrial fibre backbone network owned by KDN, a subsidiary of Altech.

Altech's recent acquisitions of Technology Concepts, NuPay and Fleetcall are providing better than expected returns, based not only on performance, but also on the fact that these acquisitions were completed at reduced valuations reflecting the current challenging economic times.

The **Bytes** group achieved revenue growth of some 3%, despite the negative impact the stronger rand had on the translation of results from its international operations. Continuing margin pressures in this highly competitive market as well as a poor performance at Bytes Specialised Solutions did, however, reduce profitability. The operating margin has reduced from 5.4% to 3.5% resulting in a 32% decline in operating profit and a decrease in EBITDA of 25%. Adjusted diluted headline earnings reduced by 38% due to increased net financing costs and a higher effective tax rate.

The South African operations have seen revenue increase by 8% to nearly R2 billion, while operating profit reduced by 30%. Bytes Document Solutions (BDS), the largest operation within the Bytes group achieved good results during the review period despite some market pressure. BDS's performance was assisted by the recently acquired NOR Paper which contributed meaningfully to BDS's revenue and profits. There were also good performances from Bytes Managed Services and Bytes Healthcare Solutions as well as improved performances from Intelleca and Bytes Systems Integration. Bytes Specialised Solutions' performance was disappointing and management is currently reviewing its Retail ATM business model.

The strengthening of the rand impacted the Bytes UK operations in terms of revenue and profits. The Software Services business continues to perform extremely well in a difficult economic environment, but the UK Xerox businesses came under pressure as access to funding required to lease equipment in the UK remains tight. Extensive remedial action has been taken in these businesses, which includes the rationalisation of the back-office functions to improve cost efficiencies as well as a substantial headcount reduction.

**Powertech** experienced a disappointing six months, primarily due to lower market demand and pricing pressures on its cables operation. The recession has also impacted the other operational performances when compared to the high base in the prior period which represented the peak of the economic cycle. Since the fourth quarter of the prior financial year, there has been a fundamental shift in demand levels in the main industries that Powertech serves, necessitating ongoing efforts to rightsize the businesses to much reduced demand levels. The impact of the contraction in volumes and the reduction in the copper price is evident in the 26% reduction in revenue and more dramatically in the operating profit line, which has declined by 75%, with the operating margin reducing from 10.1% to 3.4% which includes the forex loss referred to above of R55 million. Adjusted diluted headline earnings have declined by 79% to R60 million against a prior year's peak performance of R292 million.

The Powertech Cables Group has seen a 46% reduction in revenue through a combination of the lower copper price and much reduced demand. Volumes in the local cable market have been in line with expectations (albeit at significantly lower levels), but profitability has been impacted by pricing pressures due to excess capacity to supply the market. Substantial cost reduction exercises have been implemented to address the situation, the benefits of which will be seen during the second half of the year. The telecom cable joint venture and the international cables operations performed satisfactorily.

The Powertech Transformers group achieved good revenue growth, but operating profit declined due to margin pressures in both businesses, as well as the strengthening of the rand. The Power Transformers business has been the main driver of the revenue growth, while the Distribution Transformers business experienced greater margin pressure from increased competition and the slowdown in the building and construction industry.

Within the Powertech Battery Group the automotive side of the business has held up well while the industrial battery side has been significantly impacted by reduced activity from the mining sector. Battery Technologies also experienced a slow start to the year, although it has some interesting prospects in the mobile telecommunications sector in Africa.

The Powertech Services Group (which is made up of IST and TIS) continues to be affected by public/private sector project delays and cancellations. There are, however, signs of improvement with good prospects going forward, particularly at IST.

**Corporate activity**
The following significant transactions and corporate developments have taken place during the review period:

- The acquisition by Altech of Fleetcall, for a maximum purchase price of R75 million of which R35 million is held in escrow to be released to the vendors on Fleetcall achieving various profit warranties, with a reduced payout if these warranties are not met, effective 1 March 2009;
- The acquisition by Altech of a further 9.8% of KDN as a result of Altech funding the majority of the capital expenditure in that business in the current year and through acquiring an additional 1.8% of equity from a KDN minority for US$3.3 million;
- The disposal by Altech of Altech NamiTech's South African operations to Gemalto for approximately R82 million, effective 1 April 2009;
- The acquisition by Altech of Technology Concepts for a maximum total consideration of R45 million of which R7.5 million was paid upfront and R37.5 million is held in escrow to be released to the vendors on achieving various profit warranties, with a reduced payout if these warranties are not met, effective 1 March 2009;
- The acquisition by Altech of a 50% plus 1 share interest in NuPay for R53.5 million, effective 1 June 2009;
- Altech, through its subsidiary KDN, acquired a 8.5% stake in The East Africa Marine System Limited (TEAMS) cable for an amount of US$11 million. This investment gives KDN a 10% voting right in TEAMS; and
- Powertech converted Power Matla's 25% holding in Desta Power Matla into a 20% holding in the combined Powertech Transformers and Desta Power Matla operations, effective 1 March 2009.

After the balance sheet date, Altech formed a strategic alliance with Seacom for the acquisition of bandwidth capacity on each other's cable systems in East Africa.

**Outlook**
Recent economic data indicates that the bottom of the economic cycle may have been reached and there are tentative signs of recovery. This is consistent with the trends we have seen in our businesses, many of which have reported improved results over the last couple of months. Nevertheless, demand levels in the economy remain weak compared to those seen at the peak of the cycle and any recovery is expected to be gradual. Visibility going forward continues to be limited and the strength of the rand is of serious concern given the impact this has on the translation of results from foreign operations, export markets and competition from foreign imports

Compared to the first half, it is expected that the second six months should provide an improved performance reflecting better trading conditions and realising the benefits of the rationalisation programmes undertaken during the period under review.

**Directorate**
Shareholders are referred to the SENS announcements published by Altron on 3 March 2009 and 5 August 2009, advising that with effect from 1 March 2009 Altron Chairman, Dr WP Venter had assumed the role of non-executive chairman of the company and that Mr MJ Leeming had been appointed as lead independent director of Altron with effect from 3 August 2009, respectively.

Furthermore, shareholders are referred to the SENS announcement published by Altron on 3 August 2009, advising that Dr HA Serebro had retired from the Altron board as an executive director with effect from 1 August 2009. The board expresses its appreciation to Dr Serebro for his significant contribution over the years.

**Acknowledgements**
In these difficult times management and the board would like to thank their loyal customers, and business partners, staff, shareholders and other stakeholders for their ongoing support of the group and its operational companies.

On behalf of the board

**Dr Bill Venter**
Non-executive Chairman

**Robert Venter**
Chief Executive

**Alex Smith**
Chief Financial Officer

5 October 2009

## CORPORATE INFORMATION

### Board of directors

**Independent non-executive:**
Mr NJ Adami
Mr MJ Leeming
Dr PM Maduna
Ms BJM Masekela
Mr JRD Modise
Ms DNM Mokhobo
Mr PL Wilmot

**Non-executive:**
Dr WP Venter (Chairman)
Mr MC Berzack

**Executives:**
Mr RE Venter (Chief Executive)
Mr N Claussen
Mr PMO Curle*
Mr PD Redshaw*
Mr AMR Smith*
Mr CG Venter
*British

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