AST Group Limited

Interim results

for the six months ended 31 December 2002

REGISTRATION NUMBER 1998/021790/06
Share code: AAA ISIN code: ZAE000027397

www.ast.co.za

Financial policy statements

- The financial statements are prepared in accordance with and comply with the Statements of Generally Accepted Accounting Practice of South Africa.
- The financial statements have been prepared on the historical cost basis.
- The accounting policies of the Group are consistent in all material respects with those applied in the previous year except for the change in accounting treatment of certain loans due to the issue of AC 133.

Income statement

for the six months ended 31 December 2002

	Unaudited 31 Dec 2002 R'000	Unaudited 31 Dec 2001 R'000	Audited 30 Jun 2002 R'000
Revenue	**1 196 532**	1 004 032	2 219 650
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**68 606**	135 953	209 884
Depreciation	**(31 747)**	(25 775)	(56 071)
	36 859	110 178	153 813
Impairment of assets	**(5 262)**	–	–
Exchange loss	**(21 325)**	–	–
Once-off costs	**(74 597)**	–	(30 184)
Operating (loss)/profit	**(64 325)**	110 178	123 629
Net finance cost	**(21 308)**	(259)	(3 432)
Share of results of associates	**53**	(6 091)	(2 619)
(Loss)/profit before tax and amortisation	**(85 580)**	103 828	117 578
Tax	**16 531**	(27 912)	(29 605)
(Loss)/profit after tax	**(69 049)**	75 916	87 973
Amortisation of goodwill	**(80 391)**	(44 158)	(138 179)
(Loss)/profit after tax and amortisation	**(149 440)**	31 758	(50 206)
Minority interest	**15 156**	(2 644)	(4 674)
Net (loss)/profit for the period	**(134 284)**	29 114	(54 880)
Net finance cost	**(21 308)**	(259)	(3 432)
Interest received	**10 408**	4 872	10 878
Additional finance costs due to AC 133	**(4 663)**	–	–
Finance costs	**(27 053)**	(5 131)	(14 310)
Headline (loss)/earnings per ordinary share (cent)	**(9,05)**	12,87	20,08
Fully diluted headline (loss)/earnings per ordinary share (cent)	**(6,77)**	11,47	18,59
(Loss)/earnings per ordinary share (cent)	**(23,42)**	5,27	(9,79)
Fully diluted (loss)/earnings per ordinary share (cent)	**(17,51)**	4,70	(9,06)
Weighted average number of shares	**573 287**	552 280	560 497
Fully diluted number of shares	**766 724**	619 465	605 493
Number of shares in issue	**575 046**	571 026	575 046
Reconciliation of headline earnings			
Net (loss)/profit for the period	**(134 284)**	29 114	(54 880)
Amortisation of goodwill	**77 169**	41 961	129 166
Provision for restructuring costs	**815**	–	1 000
Impairment of assets	**5 262**	–	7 087
(Profit)/loss on sale of business	**(832)**	–	30 184
Headline (loss)/earnings	**(51 870)**	71 075	112 557

Balance sheet

as at 31 December 2002

	Unaudited 31 Dec 2002 R'000	Unaudited 31 Dec 2001 R'000	Audited 30 Jun 2002 R'000
ASSETS			
Non-current assets	**635 426**	749 650	602 219
Property, plant and equipment	**158 110**	146 384	164 683
Goodwill	**232 879**	440 540	281 498
Unlisted investments	**70 868**	36 921	24 849
Deferred tax asset	**173 569**	125 805	131 189
Current assets	**552 929**	555 869	551 253
Rental assets	**42 376**	20 332	34 915
Inventories	**30 688**	37 035	30 452
Trade debtors and other receivables	**447 184**	399 517	374 155
Cash and cash equivalents	**32 681**	98 985	111 731
Total assets	**1 188 355**	1 305 519	1 153 472
EQUITY AND LIABILITIES			
Capital and reserves	**222 914**	508 815	336 264
Minority interest	**30 804**	58 458	60 960
Non-current liabilities	**169 009**	197 522	125 230
Interest bearing liabilities	**144 111**	93 203	86 656
Deferred tax liability	**14 229**	21 789	12 907
Amounts due to vendors	**10 669**	82 530	25 667
Current liabilities	**765 628**	540 724	631 018
Trade creditors	**316 838**	238 323	315 986
Income received in advance	**147 292**	65 318	43 059
Other payables and provisions	**259 428**	175 887	203 621
Amounts due to vendors	**18 382**	30 850	46 563
Tax liability	**23 688**	30 346	21 789
Total equity and liabilities	**1 188 355**	1 305 519	1 153 472
Net asset value per ordinary share (cents)	**38,76**	89,11	58,48
Fully diluted net asset value per ordinary share (cents)	**29,07**	82,14	55,54

Cash flow statement

for the six months ended 31 December 2002

	Unaudited 31 Dec 2002 R'000	Unaudited 31 Dec 2001 R'000	Audited 30 Jun 2002 R'000
OPERATING ACTIVITIES			
Cash generated from operations	**70 288**	93 614	252 954
Net finance cost	**(21 308)**	(259)	(3 432)
Normal tax paid	**(23 695)**	(19 319)	(43 433)
Cash from operating activities	**25 285**	74 036	206 089
INVESTMENT ACTIVITIES			
Acquisition of subsidiaries and businesses	**(56 438)**	(108 940)	(131 661)
Other investment activities	**(33 648)**	(43 678)	(111 412)
Cash used in investment activities	**(90 086)**	(152 618)	(243 073)
FINANCING ACTIVITIES			
(Repayment of)/proceeds from long-term borrowings	**(14 249)**	16 609	(12 243)
Cash (used in)/from financing activities	**(14 249)**	16 609	(12 243)
Net decrease in cash and cash equivalents	**(79 050)**	(61 973)	(49 227)
Cash and cash equivalents at the beginning of the period	**111 731**	160 958	160 958
	32 681	98 985	111 731
Short-term loan	**–**	(28 750)	–
Cash and cash equivalents at the end of the period	**32 681**	70 235	111 731
Operating cash flow per share (cent)	**4,41**	13,41	36,77
Cash conversion ratio (%)	**136,56**	68,86	120,52

Statement of changes in equity

for the six months ended 31 December 2002

	Unaudited 31 Dec 2002 R'000	Unaudited 31 Dec 2001 R'000	Audited 30 Jun 2002 R'000
Share capital	**58**	57	58
Balance at the beginning of the period	**58**	55	55
New shares issued during the period	**–**	2	3
Share premium	**283 083**	330 819	253 519
Balance at the beginning of the period	**253 519**	228 359	228 359
Premium on new shares issued during the period	**–**	43 416	52 880
Share issue expenses written off	**(61)**	(160)	(246)
Changes in amounts due to vendors during the period	**26 624**	59 497	(27 182)
Utilisation/(purchase) of treasury shares	**3 001**	(293)	(292)
Distributable reserves	**(66 327)**	183 888	78 278
Balance at the beginning of the period	**65 531**	144 788	144 788
– as shown previously	**78 278**	145 925	145 925
– adjusted for AC 133	**(12 747)**	–	–
– adjusted for AC 123 and AC 135	**–**	(1 137)	(1 137)
Net (loss)/profit for the period	**(134 284)**	29 114	(54 880)
Currency translation differences for the period	**2 426**	9 986	(11 630)
Non-distributable reserves	**6 100**	(5 949)	4 409
Balance at the beginning of the period	**4 409**	(3 040)	(3 040)
Profits/(losses) on cash flow hedges for the period	**4 852**	–	(5 951)
Currency translation differences for the period	**(3 161)**	(2 909)	13 400
Balance at the end of the period	**222 914**	508 815	336 264

CEO report

Since the changes announced by our Board of Directors in December 2002, significant progress has been made to ensure the long-term sustainability and prospects of the Group.

The market is aware that late last year the Board announced its disappointment with AST's performance and management, which resulted in significant changes to both the Board and the executive management of the company. Since then, we have been faced with a number of challenges in addressing short term liquidity needs, realigning and simplifying the business and reducing the cost base – the negative side effects of a too aggressive and, in light of changed market conditions, unsustainable earnings and revenue growth strategy of the past.

Business update

We are pleased to announce the following progress we have made:

- A stringent business improvement and cost reduction programme (BIP) has been initiated. Using our full year to June 2002 as a baseline this programme has identified a minimum of R120m of cost savings on an annualised basis, including those resulting from the centralisation referred to below. We will not see the full benefit of this for some 18 – 24 months, but we have aggressive plans. Details of this programme are provided below.
- AST is being restructured into a single business entity as opposed to the previous decentralised and largely autonomous business units. This enables the centralisation of functions such as marketing, finance, information management, human resource management etc. We have also addressed our need to become more client centric by creating a Customer Care Division reporting directly to the executive director responsible for Sales and Marketing. Client satisfaction has improved with more open communication and client focus – and our already good service levels have improved.
- We have clearly defined our core and non-core business entities and are selling or closing the latter. Some of these were loss making and others were profitable, some only marginally. This has so far generated some R10m in cash and in addition has saved on operating expense.
- AST's board has for some time recognised the need to raise permanent capital for the company. In this regard, the company is currently at an advanced stage of negotiation with a group of stakeholders, who, having already provided short-term liquidity, intend to assist with the raising of permanent capital. Shareholders are referred to the cautionary announcement issued today as part of this release in relation to the recapitalisation of the company.
- Gerrie de Klerk has resigned from his non-executive Chairman position and as a director of the Group due to ill health. Hans Smith, formerly Chairman of Iscor and Kumba Resources is appointed Chairman of the AST Group with immediate effect. We welcome Hans to the Board and are looking forward to the contribution he will make due to his experience with the management of cost reduction programmes.
- Given the weakness in the market we are proud to announce that we have signed more than R500m of business with both existing and new clients since December 2002.
- We have taken firm action to improve margins. This will become visible towards the end of this financial year, but real results will only become more evident in the next financial year.

The Business Improvement Programme (BIP)

At the request and with the assistance of our non-executive directors and Kumba Resources we appointed a respected international consulting company to assist us in returning AST to health. The first phase of the programme entailed a detailed due diligence of AST's attractiveness to the market and its sustainability. The consultants' report confirmed management's view that the underlying business is sound and that profitability can readily be improved. The competitive advantage of the services and solutions portfolio was also confirmed, as was the viability and sustainability of the Group, provided that certain remedial actions were rigorously implemented.

This resulted in a Business Improvement Programme (BIP) commencing under the Chairmanship of myself. A key element of the BIP is a cost reduction initiative to be chaired by Mr Charles Meintjes, a non-executive director of AST. Charles also has significant experience in the management of cost reduction programmes at Kumba Resources, as does our new chairman, Hans Smith.

We are pleased that our major clients and business partners have embraced the BIP, as is evidenced by the new deals from both existing and new clients amounting to over R500m.

In line with the more focused and conservative strategy of the Group, new opportunities are approached taking into account the available financial resources and market conditions. Greater prudence in financial management has been introduced together with stringent working capital management and the initiation of a long-term capital management programme, which will result in the strengthening of the balance sheet.

Despite the current climate of change, AST's core business is sound and the Group is generating, on average, some R200m in revenue per month with positive cash flow. We have retained all of our major clients and all of our key employees.

Financial results

The results confirm that we have a strong value proposition in the marketplace as evidenced by the 19% increase in revenue, against an estimated industry growth of about 12% for the comparable period. However, the cost of restructuring the business and a highly competitive operating environment has eroded profitability – the margin before interest, depreciation and tax has reduced to 5,7% from 13,5% for the comparable period last year. Non-recurring items relating to the cost reduction, BIP and forex losses of R95,9m have resulted in the Group reporting a headline loss of 9,05c per share for the six months ended 31 December 2002.

The balance sheet is weaker than desired due to a number of factors including the recent settlement in cash of large earn out payments, which resulted from our earlier aggressive non-organic growth strategy. Thankfully 96% of the vendor payments due in the current financial year are now behind us. The reduction of debt, difficult market conditions and once-off costs have exacerbated the impact on the balance sheet.

We believe that the worst is behind us and that the positive benefits of the cost reductions; positive monthly cash flows and a stronger second half will rebuild liquidity and, over time, the strength of the balance sheet.

Capital expenditure

The capital expenditure for the Group during the period under review was R20,7m, primarily in respect of purchases of income generating computer equipment.

Dividend policy

There will be no dividend payments for the 2003 financial year.

Prospects

The management team has addressed the liquidity requirements of the Group and the operations are stable. Profitability will improve as we move forward and the results of the BIP become evident. The simplification of the business and the structure, a more conservative and focused growth strategy leveraged on the strengths of the Group, and continued cost reductions will all contribute to profitability. Client focus and satisfaction coupled with quality of service remain a primary focus.

We will aggressively pursue opportunities to strengthen and better position the Group and its balance sheet. We have a sound company that can only benefit from the actions that we've already taken to improve it – regrettably it takes time for the results to become apparent.

I wish to thank our stakeholders including employees, shareholders, our Board of Directors, our clients, suppliers and our bankers for their continued support and commitment.

John Miller, *CEO* AST Group — 27 March 2003

Cautionary announcement

The attention of shareholders is drawn to the Chief Executive Officer's comments regarding negotiations to recapitalise the company. Shareholders are advised that these negotiations, if successfully concluded, may have a material effect on the price of the company's securities. Accordingly, shareholders are advised to exercise caution when dealing in the company's securities until a full announcement is made.

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This and additional information is available on our website: www.ast.co.za

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