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The highlight of the period under review was the celebration of Altron's 40th anniversary. From its humble beginnings 40 years ago, Altron's principal operating subsidiaries – Altech, Powertech and BTG – today represent some 140 businesses, employing more than 11 000 people. Our market capitalisation recently passed the R8 billion mark but – in an impersonal world – personal relationships remain the hallmark of our group. From our international technology partners to our operational empowerment shareholders to the men and women of Altron, the common thread is a desire for excellence, dedication to service delivery and a focus on customers.

### Financial overview

I am pleased to report that during the period under review Altron posted increases in both revenue which was up 14% to R14.0 billion from R12.2 billion, and operating profit which

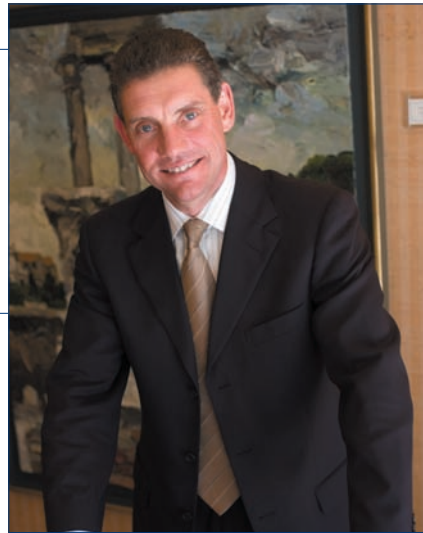
exceeded R1 billion for the first time. Our headline earnings per share increased by 17% to 189 cents per share and a dividend of 78 cents per share was declared representing a 24% increase on the prior year.

Based on the overall performance of our underlying operations, we were able to improve our return on capital employed to 23% and our return on net assets to 27%. Our balance sheet remains strong with cash on hand of R2.2 billion, compared to R1.5 billion in the prior year. We remain committed to investing in capacity within our operations and in the light of this, we incurred capital expenditure of R315 million during the year under review.

**Altech's** growth in headline earnings per share of 12% to 379 cents per share was driven by better-than-expected performances from most of its operating companies including Altech



**Robert Venter** (Chief Executive)  
31 May 2006



Autopage Cellular, Altech Netstar, Altech UEC Multi-media, Altech Card Solutions and Altech Isis. However, performance was disappointing at Altech NamITech which experienced pricing pressures, adversely impacting on profitability. As a result of this underperformance and the closure of certain operations, a goodwill impairment of R82 million has been raised in the current year.

The necessary corrective actions have been taken at Altech NamITech in terms of management changes, a business realignment and a restructuring exercise. Altech's balance sheet remains strong with a net asset value of 1 721 cents per share and cash of R1.5 billion. Return on capital employed is 32%. A five-year service provider and incentive agreement, with an option to renew for a further five years, was signed between Altech Autopage Cellular and Vodacom and similar agreements are also in place with Cell C and MTN.

**BTG** recorded a strong performance with headline earnings per share growing by 48% to 127.7 cents from 86.4 cents, which, on an adjusted basis and when excluding the once-off impact of raising a deferred tax asset, shows an increase of 27% to 109.4 cents. BTG's revenue growth of 19% to R3.5 billion compared to R2.9 billion for the prior year reflects organic growth of 10%, the inclusion of the businesses acquired from CS Holdings for the full year as well as the consolidation of 100% of Digital Healthcare Solutions revenues for the first time.

The improvement by 28% in operating profit to R282 million compared to R221 million in the previous year is as a result of margin

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improvements at all the BTG operations, as well as the return to profitability of the BTG UK operations. Operating margin at BTG now exceeds 8%.

**Powertech** recorded strong results on the back of positive performances from its operating business units, including ABB Powertech Transformers, Aberdare Cables, the Powertech Battery Group and the Powertech Industrial Group. Revenue increased by 19% to R4.5 billion from R3.7 billion in the prior year and operating profit grew by 14% from R245 million to R280 million. Aberdare's power cable business delivered good results for the year but the continued downturn in the telecoms market required a restructure of the copper and fibre telecoms cable operations resulting in the closure of the manufacturing plant in Port Elizabeth.

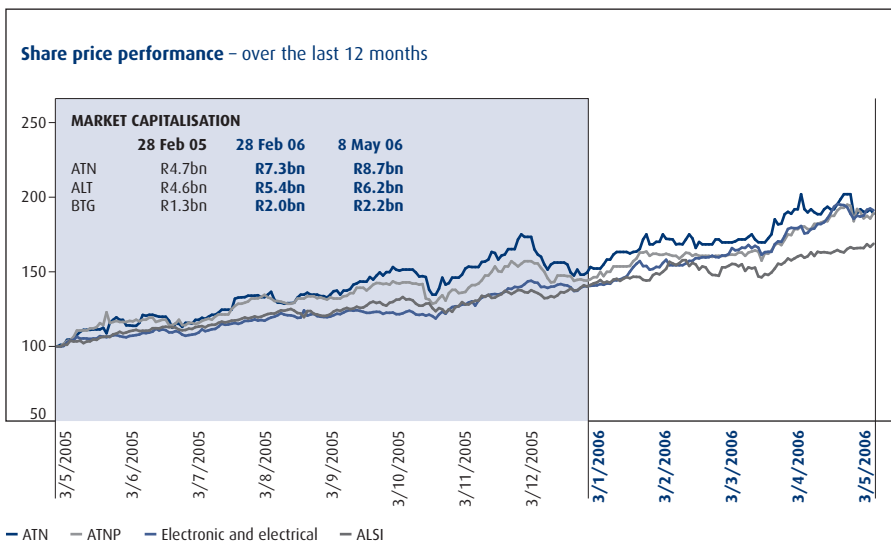
The group's **finance operations** produced an improved contribution to the group's overall results. This was mainly due to higher secondary rental income. During the year, Altron disposed of its 33% stake in Fintech (Pty) Limited to Fintech management and Sanlam Investment management, in line with the group's long-term objectives. Fintech Receivables 1 (FR1), Altron's securitised interest in the financing book, is amortising in line with expectations.

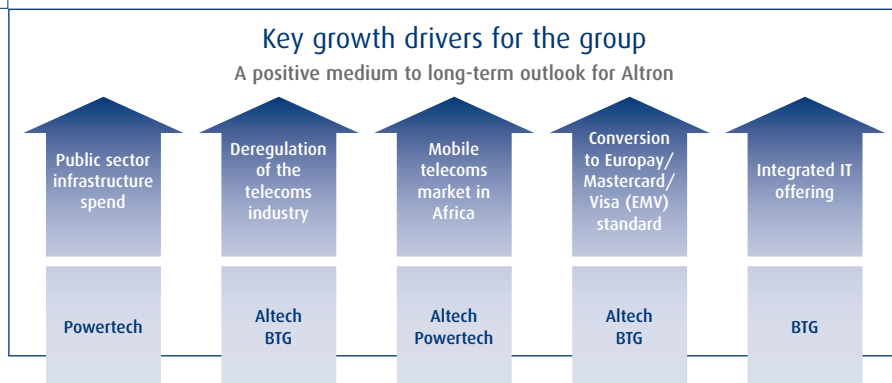
### Strategic philosophies and growth drivers

Over the past five years, the group has remained committed to achieving the broad strategic philosophies and growth strategies which are illustrated on page 3. Looking back over the year, management is well satisfied that many of our financial objectives and

strategic targets have been met allowing us to further improve shareholder value. In this regard, our market capitalisation has increased from R4.7 billion in February 2005 to R8.7 billion as at 8 May 2006 which represents an 85% increase over this period. In terms of our strategy to build annuity income throughout our group, this income grew, on a contractual revenue basis, to approximately 50% to 60% of total revenue. As far as the group's commitment to

strategic alliances is concerned, service provider and incentive agreements have been concluded between Altech Autopage Cellular and Vodacom and MTN. Existing relationships and alliances with international partners were further strengthened and new territories were acquired from, among others, Xerox (Kenya) for Bytes Document Solutions in the BTG group. Similar progress was made in terms of the group's strategic philosophies with regards to broad-based





black economic empowerment; focus on high-growth opportunities; international expansion and the ownership of intellectual property rights (IPR).

The various opportunities in the relevant sectors have been consolidated into a number of strategic growth drivers for our group. These key growth drivers were identified and outlined in 2004 and continue to form the basis of our operational growth strategy through 2005 and 2006.

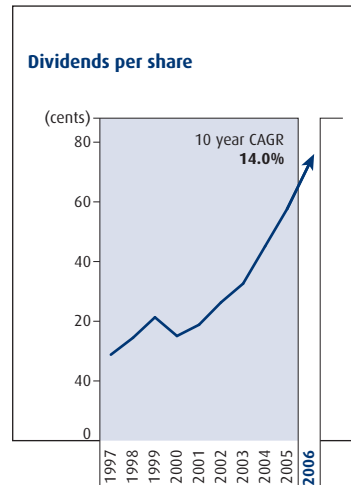
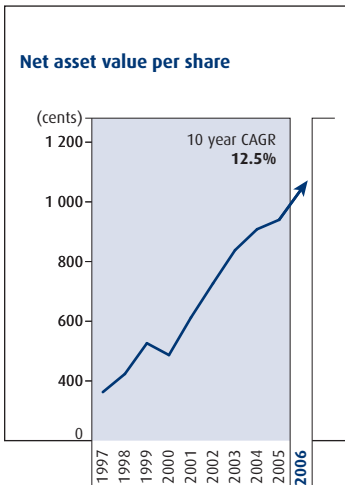
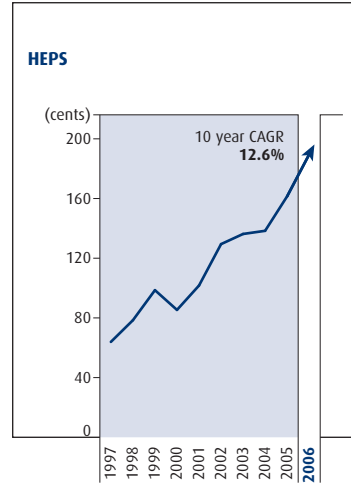
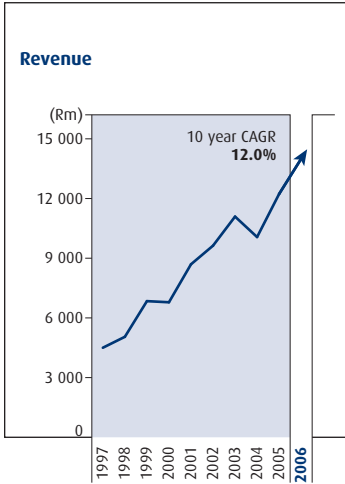
### Growth drivers

#### Public sector infrastructure spend

To ensure that the full potential of this growth driver is exploited, Powertech's focus remains on expanding its products and services

offering which span all three segments of the power continuum, namely generation, transmission and distribution. Systems are being developed to maximise synergies in the group by optimising production and distribution capabilities and additional manufacturing capacity is being installed in appropriate areas. During the period under review Powertech's range of offerings was enhanced with the purchase of Calidus Von Roll Isola, a supplier of electrical insulation materials for the high-voltage, generation and traction industries. Additional bolt-on acquisitions are under consideration.

## Ten-year track record



“The various opportunities in the relevant sectors have been grouped into a number of strategic growth drivers for our group.”

#### **Deregulation of the South African telecoms industry**

Altech Autopage Cellular is expected to benefit from the changing telecoms landscape in South Africa, specifically in terms of the new Electronic Communications Act and the acceleration towards voice over internet protocol (VoIP) and the demand for more affordable broadband offerings. As a result Altech Autopage Cellular anticipates that it will be in a position to offer a much broader range of voice and data products in the future. The company is currently finalising its virtual network operator (VNO) and electronic service provider (ESP) strategy and has secured a VANS licence. The announced conversion from analogue to digital TV standard in light of the Soccer World Cup 2010 offers further opportunities for Altech UEC Multi-Media.

BTG's Bytes Communication Systems and Bytes Systems Integration are also expected to leverage off their existing VoIP offerings.

#### **Mobile telecoms market in Africa**

The African mobile telecoms market is growing beyond expectations while cellular penetration rates remain well below that of the rest of the world. Growing wireless demand in Africa has created a variety of opportunities for the group. Altech NamiTech opened a pre-paid voucher manufacturing plant in Nigeria during the year which has been successfully commissioned and is operating at full capacity. Powertech's Battery Technologies, with its comprehensive product range, is securing orders from operators in Nigeria for DC power products and will shortly establish Battery Technologies Nigeria.



### **Conversion to Europay/Mastercard/Visa (EMV) standard**

The implementation of the EMV standard in the South African banking industry has been slower than expected but should gain momentum in the forthcoming year. ATM and EFTPOS terminal conversions in this regard, are well progressed, benefiting BTG through its Bytes Specialised Solutions operation who are the suppliers and distributors of NCR ATM products, and Altech Card Solutions, the suppliers of Axalto EFTPOS

terminals and related software. The supply of chip-based cards is expected to benefit Altech NamITech as the standard is progressively introduced. Future opportunities lie ahead for EMV within the African banking industry.

### **An integrated information technology (IT) offering**

Through the group's IT focused businesses, BTG is able to leverage off a blue-chip customer base by offering an integrated IT service. The IT market in the United Kingdom offers growth potential for the group's data solutions and document solutions business. In line with this strategy, BTG finalised the acquisition of Xclusive Solutions, a Xerox partner in the UK, post year end. The successful integration of CS Holdings and the acquisition of Digital Healthcare Solutions by BTG as well as the acquisition by Altech Isis of MobiMaster, a French billing

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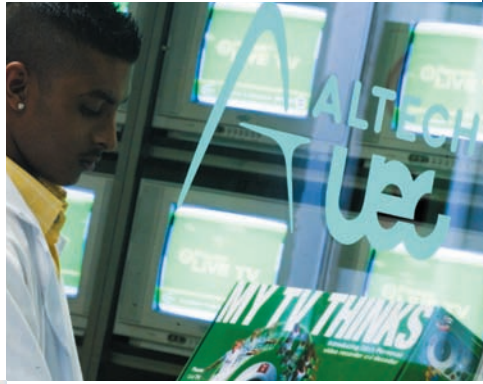
software provider, have significantly enhanced the group's products and services offering and further acquisitions in this regard are being actively explored.

### **Broad-based black economic empowerment**

Through its anchor partnerships with Pamodzi within Altech, Kagiso within BTG and Izingwe within Powertech, significant value has been added during the year in terms of commercial input and in meeting our Altron Transformation Vision 2010 targets for broader-based BEE indicators, namely skills development, employment equity, preferential procurement, enterprise development and corporate social investment. The Altron Transformation Vision 2010 is a dynamic document that will be aligned with the ICT charter and the Department of Trade and Industry's Broad-Based Black Economic Empowerment (BBBEE) Codes of Good Practice once these are finalised.

The draft BBBEE codes released in December 2005 provide more certainty as to how the BBBEE scorecards will be measured, but it is clear that the significant administrative and cost implications of these codes on companies, in their present format, will have to be addressed. A comprehensive evaluation of the codes was undertaken by the Altron transformation committee during the past few months and a detailed response was submitted to the Department of Trade and Industry before 31 March 2006.

Our annual Sustainability Report (pg 44 – 88) is based on an evolving process which relies on feedback from our stakeholders and continual improvement to reach the goal of responsible citizenship. This transformation process has grown in importance throughout our group companies and receives the highest level of management focus. As a group, we endeavour to improve our measurement and reporting



structures throughout our operations. This is being achieved through internal performance evaluations against scorecards and building an internal information system to capture sustainability data and facilitate the reporting process. Sustainability throughout our business practices remains an intrinsic element of corporate success.

### Key market conditions and outlook

In the **telecommunications** sector, the momentum towards a liberalised market is accelerating with the licensing of the second network operator, the imminent introduction of mobile number portability, the Electronic Communications Act (signed in March 2006) and ICASA's announced desire to license additional operators in the satellite television broadcast market. The Altron group, primarily through Altech as well as BTG, is well positioned to benefit from this trend, given the healthy growth of the mobile telecommunications market, both in South Africa and in Africa.

Favourable conditions in the **power electronics and multi-media** sector, as reflected through increased capital expenditure on infrastructure projects and accelerated spending on power capacity, are expected to continue to bode well in

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terms of demand for Powertech products and services. Healthy growth levels are also expected to continue in the building and construction industry although import competition – particularly from China and other emerging markets – remains a reality, highlighting the need for internal manufacturing efficiencies and external customer focus.

The outlook for the **information technology** sector is improving, with increased local investment supported by current levels of company profitability. The slower-than-anticipated adoption of the global EMV standard is expected to gain momentum and we anticipate that this will benefit a number of our businesses. The continued consolidation of the IT industry in South Africa and offshore is expected to generate more opportunities for Altron to enhance critical mass and broaden our product portfolios.

In light of these market conditions, further real growth in earnings is expected for the year ahead.

#### **Acknowledgement**

I would like to take this opportunity to express my appreciation to all of our suppliers, customers, staff, business partners and shareholders, for their ongoing contributions and support to our group. It is through this ongoing support that we are able to continue to grow as one of the leading ICT and power electronics groups in Africa. It also behoves me to thank my Executive Committee and other members of the Altron board for their ongoing support and wise counsel which they have provided to both me and the Altron group over the past year.

## Corporate activity during the period under review

During the year, the following transactions and developments took place:

- Altech Autopage Cellular successfully concluded five-year service provider and incentive agreements with Vodacom and MTN;
- Altron increased its holding in BTG to 57.6% with the acquisition of 11 million shares for R118 million;
- BTG purchased Altron's interest in the funding structure of BTG's inter-group lease financing business for R43 million;
- BTG SA increased its shareholding in Digital Healthcare Solutions from 39.3% to 100%;
- Powertech acquired Calidus Von Roll Isola for R32 million; and
- Altech disposed of its 50% plus 1 share in Econet Wireless Global (EWG) to the remaining EWG shareholders for US\$87.5 million, plus interest.

Subsequent to year end, the following transactions took place:

- Altech purchased French-based MobiMaster, a specialist telecommunications real-time converged billing system provider business;
- BTG acquired Xclusive Solutions, a leading provider of document and print solutions and Xerox partner in the United Kingdom, for an initial consideration of £3.2 million that could increase to a maximum of £4.5 million depending on future profit performance.