

## Chief Executive's review

This past financial year has been an exciting and rewarding period for the Altron group and its stakeholders, with record results achieved and substantial benefits obtained as the effects of our strategic actions coincided with strong market conditions. The common thread that binds our group – a desire for excellence, dedication to service delivery and customer focus – manifested itself in commendable performances from our three subsidiary companies, Altech, Bytes and Powertech. Powertech, in particular, was a key driver of our growth as it capitalised on an increased focus on infrastructure spend.

**Robert Venter**  
Chief Executive



I am proud to report that Altron's revenue increased by 23% over the last year to exceed

R17 billion for the first time.

As a result of actions taken to reduce our internal cost base and some prudent capital expenditure decisions,

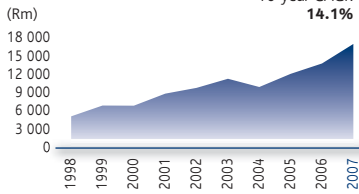
operating margins improved substantially from 7.5% to 8.9%, translating into headline earnings per share growth of over 50%. However, your directors are fully aware that favourable macroeconomic conditions change – and often rapidly. When they do, we believe the strength of our strategic initiatives will again come to the fore to provide sustainable growth as it has in previous economic cycles.

Over the past decade, Altron has consistently increased shareholder value and we will continue building this reputation with determination. It is, therefore, perhaps relevant to review Altron over a longer period of time to evaluate the ongoing sustainability of what this group has to offer. As the graphs displayed in this section indicate, over the last 10 years Altron has consistently delivered value to shareholders with compound annual growth rates in revenue of 14%, headline earnings of 16%, net asset value of 13% and dividends of 18%.

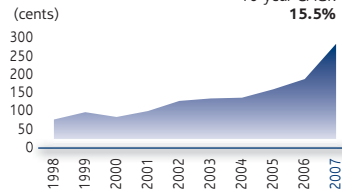
Total shareholder return (including dividends) for our group was 84% over the 12 months under review, substantially outperforming the overall market.

Sustainable growth has indeed become the hallmark of our group and is a

## Revenue



## HEPS



recurring theme in this annual report. Sustainable growth differs from short-term market-related growth because it is driven by our commitment to develop and implement an appropriate long-term vision and strategic direction for our group resulting in outperformance over a period of time.

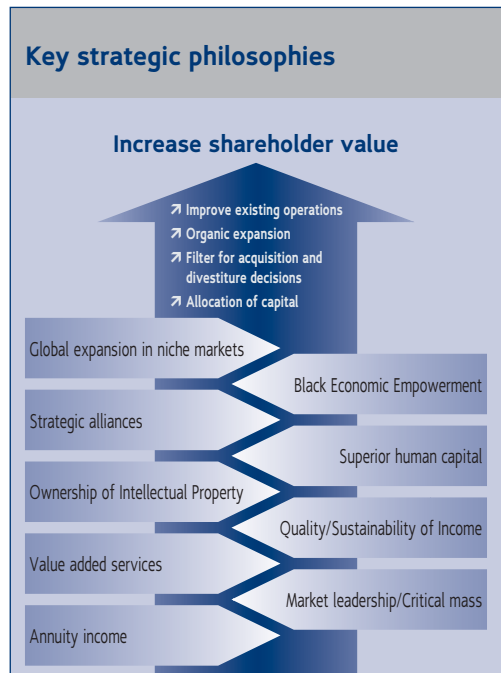
## Strategic philosophies

In our rapidly developing niche markets – telecommunications, power electronics and multi-media, and information technology – strategic development remains a dynamic process. The cornerstones of our group’s strategic philosophies are based on our sound track record, a decentralised management style, maintaining a competitive edge, strict financial disciplines and strength, a balanced risk profile and a commitment to good governance.

We aim to increase shareholder value by improving existing operations, expanding organically, growing through appropriate acquisitions and disposals,

and optimising capital allocation. We have consolidated the various opportunities in our sectors into strategic drivers for our group, thereby creating a platform for sustainable growth.

In this regard, we have the following fundamental strategic philosophies:

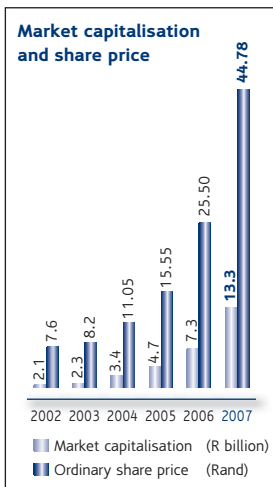


- Good performances from Altech and Bytes and outstanding results from Powertech
- Sustained demand from pick-up in infrastructure spend
- Altech enters African broadband infrastructure and operator space with USA-based CityNet Wireless Inc. and receives pilot Wimax licence in South Africa

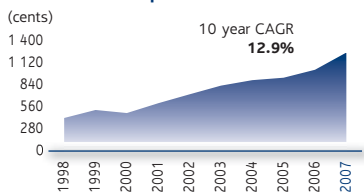
In our last report, we dealt with the external growth drivers for our group at some length. With minor modification, these drivers remain in place as summarised on page 7 of this report. Essentially, the combination of increased infrastructure spending, technology convergence, demand from the financial services sector and a niche global footprint will underpin a positive medium- to long-term outlook for Altron as a group. These strategic philosophies have served us well over the past five years resulting in the following tangible achievement:

Altron's 2007 results bear testimony to the resolute commitment to our strategic development over the long term. Since 2002, we have increased our market capitalisation more than fivefold and successfully entrenched our group's transition to second-generation management. Furthermore, progressive steps to simplify and focus our group structure in line with our strategic philosophies over the past five years include:

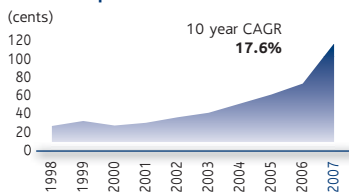
- reducing the listed entry points to the group from nine to three;
- divesting of some R1 billion in non-core businesses;
- acquiring businesses totalling some R3.5 billion in sectors that support our sustainable growth strategy;
- increasing the proportion of international sales to almost 20% of revenue by expanding operations into the United Kingdom, Western Europe, particularly the Iberian Peninsula, the Middle East, Australia, Asia and sub-Saharan Africa;



### Net asset value per share



### Dividends per share



- ▶ concluding broad-based black economic empowerment transactions with anchor partners in our three subsidiaries;
- ▶ entrenching strategic alliances with some of the world's leading technology organisations; and
- ▶ moving from being primarily an equipment supplier to a services business model, resulting in annuity income increasing to approximately 50% of sales.

In reviewing the past year, notable achievements include Altech receiving the Minister's *Technology Top 100* award for overall excellence as the top technology company in 2006; and the inclusion of Altron, Altech and Bytes in the *Sunday Times Top 100 Companies* survey for the fifth consecutive year. Our chairman, Dr Bill Venter, joined the select ranks of South Africa's top business people when he received the prestigious Lifetime Achiever's Award from the *Sunday Times* in recognition of his significant contribution to the country and the business community.

Subsequent to the year-end, Bytes was ranked eighth overall in the *Financial Mail/Empowerdex Top 200 Listed Companies Empowerment* rankings and first in the ICT sector, reflecting the substantial progress made in the group's transformation initiatives.

### Key market conditions

The review period was characterised by increased momentum in infrastructural development by both the public and private sectors, deregulation in the telecommunications market, strong consumer demand and improved IT spending. Continuing into the new financial year, these trends augur well for the Altron group. While recent interest rate increases slowed activity and growth in residential property, this has been largely offset by greater focus on commercial property development and infrastructure spending. Consumer spending remains relatively buoyant.

The deterioration in the rand exchange rate has had a dual effect on Altron



companies. For some, it improved earnings from foreign operations and reduced import competition; for others it increased costs and reduced margins, which required diligent management.

### Sector review

In the **telecommunications** sector, ongoing liberalisation introduced mobile number portability, competition for potential licences in satellite television broadcast and broadband wireless markets, as well as the promulgation of the Electronic Communications Act. Infrastructure development was boosted by Telkom's R30 billion capital expenditure programme, the launch of the second network operator, Neotel, and the establishment of the state-owned telecoms infrastructure entity, InfraCo. Equally, the rapid development and adoption of broadband technologies presents considerable opportunities for our group, particularly Altech.

Increasing capital expenditure in the infrastructure environment underscores

the favourable market conditions in the **power electronics and multi-media** sectors. The upward revision of power utility Eskom's five-year rolling forecast for capital expansion to R150 billion will increasingly provide opportunities for Aberdare Power Cables and ABB Powertech Transformers. Coupled with overall strength in the building and construction industry, this is driving demand for all the products within the Powertech portfolio. Similarly, strong international demand for resources spurred capacity expansion in various sectors of the mining industry, which benefited Powertech. This focus on infrastructure development is expected to continue in the medium term. In the multi-media sector, increased demand from local and international satellite television operators for set-top boxes is being driven by new products such as the personal video recorder (PVR) developed by Altech UEC Multi-media Technologies. The migration of South Africa's television signal from analogue

- Strong improvement from international operations
- Aberdare Cables and Reunert conclude 50/50 telecoms cable JV
- Altech UEC turnaround
- Bytes ranked as #1 empowered ICT company in SA by FM/Empowerdex

to digital, as recently announced by the Department of Communications, also augurs well for our group.

Local spending in the **information technology** sector has risen as higher corporate profitability generates funds for technology development, thereby increasing demand for Bytes' value-added solutions. However, across the sector, higher levels of competition and resultant margin pressure require an ongoing focus on internal efficiencies. Bytes continues to pursue consolidation acquisitions which will add to our leadership position in the market and enhance existing service offerings.

## Financial overview

Altron's results for the year ended 28 February 2007 showed exceptional growth with a 51% increase in headline earnings per share. Revenue rose 23% from R13.9 billion in 2006 to R17.1 billion, with operating profit increasing 47% from R1.04 billion to R1.53 billion. This reflects, as stated

earlier, an operating margin improvement to 8.9% from 7.5%, based on margin improvements at Powertech, in particular, and at Altech. Bytes operating margins remained at approximately the same level as the prior period. Powertech is reaping the benefits of cost reductions over the last 24 to 36 months, as well as enhanced operating efficiencies following substantial volume increases across its product range. During the year, Altron invested R240 million in replacement and capacity expansion, mainly in the power electronics sector.

The group's investment in working capital has increased significantly as a result of higher trading volumes and raw material prices. Return on equity improved to 23.2%, with return on net assets and capital employed rising to 30.5% and 29.8% respectively. The balance sheet remains strong with cash at R1.6 billion at 28 February 2007.



## Subsidiary review

**Powertech's** excellent results for the year included a substantial rise in revenue of 43% to R6.3 billion, which was achieved as a result of the significant increase in government power infrastructure spend as well as bullish conditions in the building and construction industry, primarily in respect of commercial property development. A more buoyant mining industry and higher commodity prices also contributed to this increase in revenue.

Operating profit increased by 128% to R638 million from R280 million in the prior year, with the operating margin rising from 6.3% to 10.1%. The improved operating margin is mainly due to improved trading conditions which enhanced volume efficiencies. It was further boosted by a favourable currency and commodity environment, as well as stringent internal cost containment.

Both Aberdare Cables and ABB Powertech Transformers reported strong performances with increasing demand from infrastructure projects, and although the Battery and Industrial groups produced less stellar growth, they nevertheless also contributed strongly to the overall result. Aberdare's Iberian Peninsula cable operations showed good growth and profitability improvements. The telecom cables joint venture with Reunert was finalised and is expected to contribute positively to Powertech's results in the new financial year, based on the strong increase in demand from telecom operators.

**Altech** increased headline earnings per share by 10% to 418 cents and revenue by 12% to R6.8 billion from R6.0 billion in the prior year. Operating profit rose by 18% to R573 million as Altech's operating margin moved from 8.0% to 8.5%, mainly due to an improved contribution from Altech UEC Multi-media

“Powertech’s excellent results for the year included a substantial rise in revenue of 43% to R6.3 billion and operating profit increasing by 128% to R638 million.”

Technologies. Despite interest rate increases in the second half of the financial year, which marginally affected consumer demand, both Altech Autopage Cellular and Altech Netstar maintained double-digit revenue growth rates. Altech UEC Multi-media Technologies produced excellent results, increasing revenue by 60% and improving operating margin to 9.9% from 1.9% in the prior year. The international success of the PVR product, as well as the company’s expansion into export markets, underscored these results which were achieved despite a substantially higher investment in research and development.

Difficult trading conditions were experienced by Altech NamiTech and an operating loss was incurred by its South African operations, which was offset to some extent by the excellent performance of Altech NamiTech West Africa operations. The combined business is expected to return to profitability in the new financial year.

Altech’s balance sheet remains strong with a net asset value of 1 863 cents per share and cash of R1.2 billion. Dividends were increased by 15% to 240 cents per share.

**Bytes**, the information technology business in the group, improved adjusted headline earnings per share by 18% to 130 cents, operating profit by 15% to R325 million and revenue by 18% to R4.1 billion. Its international operations were extended during the year under review and consequently showed strong revenue growth based on solid performances from the newly acquired Xerox businesses, Xclusive Solutions and Vantage Business Systems, in the UK. The decision has been taken to divest the loss-making Plato operation, and this is in the final stages of conclusion.

Bytes improved its net cash position to R149 million from R77 million at the previous year end due to strong control of working capital and operating



income growth. Dividends were increased by 24% to 56 cents per share.

Altron's **finance operations** at the corporate level continue to run down with the amortisation of Fintech Receivables 1, Altron's securitised interest in the financing book. Despite their diminishing contribution to group results, the Altron finance operations have continued to exceed expectations as a result of sustained high levels of secondary rental income. The bulk of new product financing is now conducted through the TAR warehouse owned by Bytes, which continues to grow in line with expectations.

## Strategic acquisitions and corporate actions:

- **Altron** repurchased 3.4 million of its own participating preference shares for R77 million and purchased 2.1 million Bytes shares for R25.2 million.
- **Powertech** acquired Swanib Cables, the largest cable distributor in Namibia, for R40 million and established a 50/50 joint venture with Reunert in the telecoms cable field.
- **Altech** finalised its acquisition of MobiMaster in France and purchased an 11% equity interest in Altech NamiTech held by German smart-card company, Giesecke & Devrient (G&D).
- **Bytes** acquired Zenith Systems for R7 million; TMS 2000 for R2.6 million; Xerox distribution rights for Kenya for R2 million; and two leading UK Xerox concessionaires, Xclusive Solutions and Vantage Business Systems, for £3.2 million and £1.5 million respectively. Bytes Digital Healthcare Solutions acquired Mastermed for R13 million.

“Our anchor partnerships with Pamodzi within Altech, Kagiso within Bytes and Izingwe within Powertech continue to add significant value.”

## Broad-based black economic empowerment

Guided by the gazetted Department of Trade and Industry’s Codes of Good Practice for broad-based black economic empowerment, the Altron group embarked on an extensive programme to educate and train both management and transformation practitioners in terms of these codes. At the same time, a full set of implementation guidelines has been completed to assist group operations in meeting the targets set out in the scorecards for the different elements of the codes.

In our sustainability report on page 71 of this report, we detail the progress our group has made over the past year in the transformation process.

Our anchor partnerships with Pamodzi within Altech, Kagiso within Bytes and Izingwe within Powertech continue to add significant value through the commercial input of our empowerment shareholders.

During the year, Altech enhanced its empowerment credentials by finalising

## Altron’s strategic alliances with principal partners



transactions with Platina Venture Holdings – led by Dr Penuell Maduna – for an effective 25% equity interest in Altech Alcom Matomo while Nariku (Pty) Limited – led by Dr Enos Banda – acquired an effective 25% equity interest in Altech Netstar Fleet Management.



## Sustainable development

Our sustainability report (pages 46 to 135) represents the evolving process of reporting to stakeholders. It is based on feedback from stakeholders and continual improvement to enhance the role that Altron plays as a responsible corporate citizen.

During the year, our sustainability and reporting practices were independently assessed by PricewaterhouseCoopers. The resulting recommendations are being integrated into our processes to enhance future reporting levels.

Throughout our business practices, sustainability remains an intrinsic element of our corporate success and receives the highest level of management focus. Across the group, we are improving our measurement and reporting structures through internal performance evaluations against scorecards, and by building an internal information system to capture sustainability data and facilitate the reporting process.

## Outlook

The period under review has been an exceptional one for the Altron group. The outlook continues to be favourable, but it is unlikely that group growth will be maintained at these high levels. Despite this, our growth prospects are underpinned by several key drivers:


- Continued strength in infrastructure – both in power and telecoms
- Ongoing buoyant conditions in the building and construction industries
- A deregulating telecoms industry generating opportunities in the provision of broadband services
- Acquisition opportunities
- Strong order books across the group.

Consequently, your directors anticipate a further year of real growth.

“A critical component of our success as a group is the commitment and support of all our employees, suppliers, customers, business partners and shareholders.”

## Acknowledgements

A critical component of our success as a group is the commitment and support of all our employees, suppliers, customers, business partners and shareholders. I thank every one of you for your contribution to attaining our goal of being the leading ICT and power electronics group in Africa. Equally important is the contribution of Altron's Executive committee, the Office of the Chairman and Board of Directors – our group benefits immeasurably from their wise counsel and collective experience.



**Robert Venter**  
*Chief Executive*

## Vision and values

- Superior knowledge of the sectors and markets in which we compete
- Clear understanding of what drives relative competitive advantage
- Entrepreneurial flair, manager/owner decisions
- Customer supremacy
- Optimal financial structures
- Embracing the culture of 'familiness'
- Accountable leadership
- Competent, motivated employees and a performance culture that fosters renewal, transformation and diversity
- Integrating an environment of mutual trust and respect.