

## Chairman's statement

### Introduction

The year under review proved to be one of significant achievement and excellence for our group, marked by both continuity and change.

In fact, our results have surpassed anything we have ever achieved in our 43-year history and our continued progress is certainly something to be proud of.

I am pleased to report that the ICT and power electronics industries remained buoyant and we once again delivered on our commitment of strategic growth and operating profit momentum, as well as further rapid expansion of our transformation and CSI programmes.

Our improved results have come about largely as a result of the continuing demand for infrastructural development by both the public and the private sectors and, more particularly, from the building and construction industries. In addition, several strategic decisions were made regarding the key markets we are competing in by investing further in core technologies going forward, while maintaining prudent financial controls.

During the period under review, we made significant investments in acquisitions to grow our product and customer base, while capital expenditure in plant and equipment reached an all-time high. As a result, our combined breadth of products, capabilities, customers, expertise and applications certainly make Altron a rather unique group and expanding upon these business elements has further enhanced our standing as a technology leader on the African continent. In addition, we executed our strategy of planned acquisitions and managed our many businesses profitably, while advancing several new projects for future long-term growth and returns.

Despite the numerous challenges which we are facing in the country at present, such as power outages, political changes and global financial market turmoil, our financial performance was both solid and successful with our revenue and operating profits continuing to be among the best in our industry.

Our technology strategies, in turn, remain focused on delivering superior performance in our core businesses and establishing prominent positions in emerging and transformational technologies.

### Macroeconomic overview

As I write this year's statement to our stakeholders, I am mindful of how volatile the world economy has become.

From highly successful businesses to ordinary citizens, the fall-out from the current period of uncertainty will undoubtedly be the cause of some economic hardship in the months ahead.

It is difficult to believe that only last year I was able to report confidently about a robust economy growing at near record levels. Any short-term comment made now, in such an uneasy market, is far less certain. This uncertainty is founded on a number of factors affecting the markets that we operate in at this time.

The drop in US interest rates coupled with the falling US dollar, has meant that all economies strongly tied to the USA, are finding both trade volumes and margins negatively affected.

Unfortunately for South Africa, the cost of oil has been rising faster than the price of the precious metals we export, resulting in continuous hikes in fuel and other costs. The net result is an ever-worsening balance of trade deficit. Our reliance on oil products – 14% for the average SA consumer – has prompted interest rate increases of 400 basis points since June 2006 and this, in turn, has led to a marked decrease in consumer discretionary spending.

The most disruptive impact on the South African economy has been the crisis in terms of electricity supply. It would be easy to add my voice to the growing cadre of critics, but there cannot be any question that the inadequate and unpredictable supply of electricity is hampering the exploitation and beneficiation of the very commodities and precious metals that should be

Dr Bill Venter  
Chairman

“Our record revenue and operating profits exceeded our expectations, as did our earnings growth and orders on hand. With our healthy cash balance, we are well poised to make meaningful acquisitions, so giving us the opportunity for above-average returns in the years ahead.”



providing a hedge for South Africa against the rising cost of imports.

I am confident that given the correct incentives, the innovation for which our country is well known will find opportunities for growth and profit, while offering solutions to manage power more effectively, and generate additional power through alternative technologies.

In the meantime, to help offset the impact of the power outages, we have initiated an intensive energy conservation programme at all of our operations and are focusing on compiling a basket of product offerings to support our companies in what has become a new product area for Altron.

While we are certainly heading for more challenging times, particularly in the short term, I am generally optimistic when looking at the prospects of our various enterprises. Our competitive position in all of our businesses remains strong and we have excellent executives throughout our group who are managing them professionally and competently.

We are achieving success not only in South Africa, but in East and Central Africa (through Altech's acquisition of a controlling interest in three subsidiaries of the Sameer ICT Group), as well as on the subcontinent, where Altech UEC is serving the fast-growing pay TV market.

One of the great opportunities for our nation to work its way through the global economic slowdown is through investment in sorely needed infrastructure at home. It is pleasing to note that despite constraints hampering delivery, the government and key utilities are showing strong commitment to such investment, providing a solid foundation for Powertech's medium-term growth.

#### **Transformation**

An enduring challenge for the South African economy is the closing of the gap between the economically privileged sectors of the population

## Chairman's statement *continued*

and the relatively poor communities – particularly those who cannot take advantage of economic growth opportunities.

Back in 2005 we created our Transformation Vision 2010, recognising that black economic transformation, as defined by the ICT Charter on BBBEE, is not only a moral imperative, but critical to the stability and future prosperity of the South African economy.

Despite the giant strides we have made previously, we realise they are but small steps at the beginning of a long journey towards true economic integration in our country.

Building on the success of Vision 2010, Altron is tackling Vision 2012 with similar vigour and commitment. Internal "stretch" goals have been set for all the companies in the group, focusing on the seven main pillars of the codes, namely ownership, board and management control, employment equity, skills development, preferential procurement, enterprise development and socio-economic development.

At Altron, we view transformation not only as a business imperative, but also as an integral part of our strategic philosophy to unlock value in our relationships with all stakeholders, from suppliers and employees to customers and shareholders.

### **Towards a sustainable future**

One of the most severe impacts on Altron, as on the economy at large, is the acute shortage of skilled artisans and technically qualified personnel. Our country needs to get to work in developing and protecting its skills base and we at Altron recognise how key this is for the sustainable growth of our businesses going forward.

We are responding to this urgent need in a number of ways, and I was delighted to be present at the opening of the Altech Academy last November, to witness the sizeable investment we are making in the ongoing

development of our own employees through tertiary study at various universities in SA.

As I contemplate the macroeconomic outlook, somewhat less buoyant than we have experienced over the past decade, it would be easy to be satisfied with our strong cash position of R2 billion, so enabling the group to cope with adverse economic hardships. I have been with Altron for the past 43 years and have experienced any number of economic cycles, both down and up.

Over this time I have learnt to keep an eye on the long term, and in this regard it is our function to position each company within the Altron family such that it serves the needs of the economy and of its end consumers while focusing on the importance of sustainability.

The Altron family places tremendous emphasis on continual product innovation based on changing consumer needs. We have a business that spans a variety of sectors, from power generation systems to communication networks.

In each area we are constantly exploring ways to take advantage of changing economic opportunities and everyone is sharing in this and making a contribution.

As we soldier on into our new financial year, I am personally excited by the opportunities that we are now beginning to exploit even as the economic sectors we serve, here and abroad, undergo profound change.

Ideally, we would like to retain our core competence and focus on the southern African region whilst seeking to build niche markets globally where we can add value with the aim of having around 25% of our revenue coming from international operations and exports in the foreseeable future.

### **Acknowledgements**

On behalf of the Altron board, I thank you, our stakeholders, for your continued support of our strategic plan to build long-term value and for enabling the Altron group to become a true





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global player. I also thank our customers for the privilege of helping them reach their goals with our innovative products and services.

It behoves me to express my sincere appreciation to our team of highly talented employees throughout the group for the passion, loyalty and dedication that they demonstrate every day in serving our customers and achieving our business objectives.

I also thank members of the board and the Altron executive committee for their ongoing advice, loyalty and support. In this regard, I especially wish to thank Robbie Venter for his continued outstanding leadership at the helm of the group and for continuing to create a strong platform from which our organisation continues to prosper and benefit.

In closing, may I take this opportunity of warmly welcoming Barbara Masekela to our board as a non-executive director and congratulating her on recently being conferred with the Order of Luthuli in Silver by President Thabo Mbeki.

### Prospects

The growth opportunities ahead for Altron remain virtually endless and we are both excited and enthusiastic about what the future holds for our group. While we are fully aware that the uncertainties in the socio-political and economic environment at present make it difficult to predict how our businesses will be impacted in the year ahead, we are certainly looking forward to another year of achievement and growth.

Dr Bill Venter

Chairman

May 2008