

Chief executive's review



Robert Venter Chief Executive



Introduction

Developments in the global credit environment, which surfaced in the mid to latter part of 2008, affected economies across the board and resulted in a significant decline of stock market valuations and commodity prices leading to recession in many countries and a widespread liquidity crisis.

Altron and the South African economy were not immune to the global turmoil. This was reflected in a satisfactory financial performance for our group in the first half of the year but followed by a disappointing second half as the full impact of these economic conditions was felt.

Locally, the macro-economic environment exacerbated the international crisis. The protracted cycle of high interest rates resulted in material declines in demand for our companies supplying products to the building and construction sector which, coupled with the rapid decline in commodity prices, negatively impacted our Powertech business which showed a decline in profits when compared to the prior year. Our Bytes business reported a steady performance in line with the prior year but did suffer from deferrals in IT expenditure and pricing pressures primarily from its financial institution and retail clients. On a more positive note, our Altech subsidiary, which is underpinned by a high proportion of annuity income, performed well and showed double-digit profit growth.

» The markets we are operating in are substantially changed from those of only 12 months ago. This requires a different approach to managing our business which is being emphasised throughout the group.

Financial overview

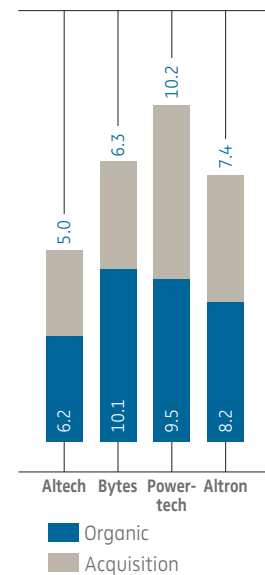
For this year's annual report, we have included a chief financial officer's report for the first time. This will provide a detailed analysis of our group's financials. Consequently, I shall provide a more summarised overview of the 12 months ended 28 February 2009.

Revenue for the year under review achieved good growth of 16% reaching R24.8 billion. The constituents of this growth were both organic (8.2%) and acquisition related (7.4%). As a result of significant non-recurring charges relating to inventory write downs in our energy cables business following the rapid reduction in the copper price and a deteriorating business environment, earnings before interest, tax, depreciation and amortisation (EBITDA) margins declined from 10.3% to 9.0%. This resulted in EBITDA increasing by 1% from R2.21 billion to R2.24 billion. As a result of lower finance income and additional shares in issue relating to the acquisition of the Bytes minorities in January 2008, adjusted diluted headline earnings per share declined by 18% compared to the prior year.

Adjusted diluted headline earnings per share takes headline earnings per share and accounts for the dilutive impact of the various broad-based black economic empowerment transactions throughout the group. A further adjustment to exclude

Revenue for the year grew by 16% to R24.8 billion. This constitutes 8.2% organic and 7.4% acquisition-related revenue growth.

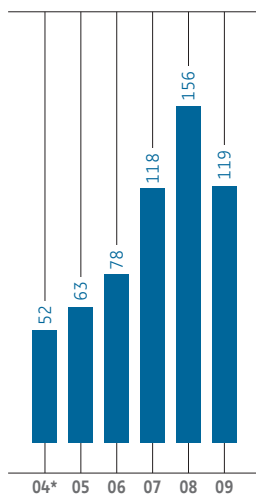
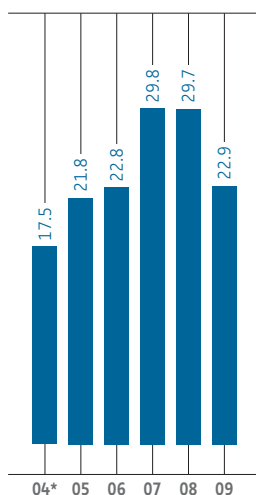
Organic and acquisition revenue growth (%)



Chief executive's review continued

amortisation of intangibles arising out of acquisitions is then made. Management considers adjusted diluted headline earnings per share to be the measure that best reflects our overall performance.

Altron's cash position improved strongly in the second half to R1.2 billion, although this is some R913 million down on the prior year following the R1.9 billion invested in the growth of our group through acquisitions and capital expenditure. Our strong balance sheet allowed us to maintain our dividend cover declaring a dividend of 119 cents per share.

Dividends declared (cps)**Return on capital employed** (%)**Focus areas**

The markets we are operating in are substantially changed from those of only 12 months ago. This requires a different approach to managing our business which is being emphasised throughout the group. One of the most challenging aspects of managing in the current economic environment is the lack of visibility of the immediate future and how that impacts decisions that need to be taken. Given this uncertainty, the group will focus on areas where it has the ability to exercise some direct control.

These include among others:

- » Management of the cost base – all costs are coming under careful scrutiny in order to ensure that the group is as lean as possible, without prejudicing our ability to react to the upswing when markets turn;
- » Working capital management – “cash is king” in these times and significant time and effort will continue to be directed at managing and minimising the investment in working capital;
- » Focused capital expenditure – all capital expenditure requests are carefully evaluated to ensure that they are essential to the business unit and will deliver immediate returns;
- » Fully integrating recent acquisitions – all efforts will continue to be directed at ensuring that the group's acquisitions are delivering on their potential and that the maximum synergies are extracted; and
- » Capacity alignment – ensuring that our production capacity is appropriate given the reduced-demand environment.

The low visibility in certain key markets such as the building and construction industry, the price of commodities and the impact of the credit crunch on our

*Not restated for effect of IFRS.

customers has forced Aberdare Cables to take some significant actions in terms of managing its working capital, scaling down on factory production, mothballing certain facilities and consolidating other production sites. Significant progress towards these actions had been made by year end. These steps are expected to enable this operation to meet the changing demand environment in which it now operates.

Other challenges for Powertech include the expected slow recovery in the housing market, customer access to funding and increasing import competition, particularly from China and India.

The delays and cancellations of significant projects in retail and financial services are impacting a number of businesses, especially in our Bytes group. This remains a challenge and requires significant action in terms of cost efficiencies and consolidation at operational level.

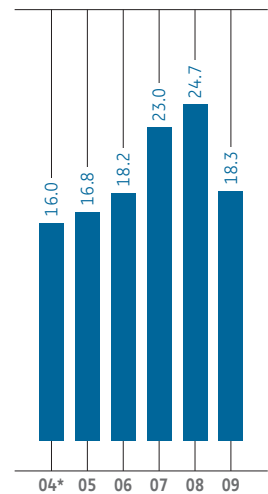
The lack of key engineering and IT skills in the marketplace is ongoing and the group remains focused on skills development and retaining scarce skills. Our progress is detailed in our sustainability report on page 64.

Operational highlights

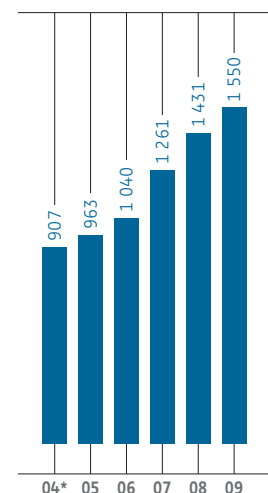
Notwithstanding the challenges we faced during the second half of the year, there were significant operational highlights during the year. These included among others:

- » The investment by Altech in the Sameer ICT Group in East Africa which is performing above expectations – good profit margins are enhancing Altech’s overall profitability and offering a number of exciting opportunities for further growth.
- » Altech Autopage Cellular produced higher-than-expected margin levels and good revenue growth. Although consumer demand is still evident at this company, it is showing signs of maturation and focus has been directed to growth from the data side of the business where subscribers have risen to 74 000 of a total base that now exceeds one million subscribers.
- » Altech Netstar Fleet Solutions and ComTech are performing well ahead of expectations both in terms of revenue growth and profitability. Although Altech Netstar Stolen Vehicle Recovery (SVR) has been impacted by the dramatic decline in new car sales and potential credit risk of its consumer customer base, the SVR business is performing satisfactorily under tough conditions and showed growth on the prior year.

Return on shareholders’ equity (%)



Net asset value per share (cents)



*Not restated for effect of IFRS.

Chief executive's review continued

Corporate activity

The following significant transactions and corporate developments took place during the year under review:

- » The acquisition by Altech of a 51% controlling interest of the Sameer ICT Group in East Africa for US\$75 million, effective 1 March 2008
- » The acquisition by Powertech of the 50% equity interest it did not already own in ABB Powertech Transformers from ABB for R320 million, effective 1 April 2008
- » The disposal by Powertech of Yelland Control to Omron Europe BV for R75 million, effective 1 April 2008
- » The acquisition by Bytes of Intellecta for R115 million, effective 1 April 2008
- » The acquisition by Bytes of NOR Paper for up to R164 million, effective 1 July 2008
- » The sale to Kagiso of a further 22% equity interest in Bytes SA for R198 million, effective 1 July 2008.

Post year end

- » The acquisition by Altech of Fleetcall, effective 1 March 2009, for R40 million which could increase to a maximum of R75 million depending on the achievement of future profit targets
- » The disposal by Altech of Altech NamITech's South African operations to Gemalto for approximately R79 million, with an effective date of 1 April 2009
- » The acquisition by Altech of Technology Concepts for R7.5 million which could increase to a maximum of R45 million subject to certain profit levels being achieved.

- » The successful export drive at Altech UEC is resulting in significant unit growth in the Indian and Asian markets.
- » Bytes UK Software Services reported record results off a high base and Bytes Managed Services and Bytes Healthcare Solutions both excelled in a difficult environment.
- » Bytes Document Solutions (BDS) performed particularly well over the past year, reflecting increased machine placements, and an improving level of value-added document services which now constitute the major part of its business. The acquisition of NOR Paper, which has produced excellent results, augurs well for the coming year.
- » Powertech Transformers and Desta Power Matla performed above expectations. Government's focus on infrastructure spend to create GDP growth and employment, as well as deliver on election promises, continues to create an environment conducive to demand for transformer products. This is expected to remain robust in the medium term.
- » Powertech Batteries recorded an exceptional year with good revenue growth and enhanced profitability following recent capital expenditure. It continues to benefit from supplying the replacement market driven by the expanded pool of vehicles created by rising car sales in recent years.

Strategic achievements

Altron's strategic philosophies continue to steer the group in terms of growth and sustainability. During the review period, we have measured our success against targets set in the previous year and we report on this in the investor proposition section. However, there are a number of key achievements that warrant emphasis, including our long-term objective to move up the telecommunications value chain. Through Altech's majority holding in the telecommunications businesses of the Sameer ICT Group in Kenya, substantial progress towards this objective has been made and has proved financially beneficial. Other achievements include our group capitalising on increased exposure to the infrastructure market through the Powertech IST and Powertech Transformers acquisitions.

Increasing the contribution of annuity based income to our total revenue is another key strategic focus of the group and during the year under review, Altron increased annuity income to over R10 billion which represents more than 40% of total group revenue now being annuity based. Altech has increased its annuity income contribution to 79% of total revenue and Bytes and Powertech continue to focus on growing these income streams.

We have also increased our foreign revenue and exports to 25% of total revenue and established a substantial footprint in our chosen global markets.

Our strategic alliances with international "best of breed" companies continue to expand, while our existing relationships with companies such as MTN, Vodacom, Xerox, NCR, Teradata, Arrow Electronics, Motorola, Microsoft, ABB, General Electric and others have been strengthened.

From a broad-based black economic empowerment (B-BBEE) perspective, our internal charter, Vision 2012, was successfully launched and progress against our targets is being measured on an ongoing basis. It was pleasing for our group to improve its ranking on the Financial Mail/Empowerdex Top 200 Empowerment Companies for 2009 to number 32 overall in South Africa. Our progress during the year in terms of our B-BBEE transformation is outlined in the sustainability report.

Outlook

The challenging economic environment is expected to continue over the short to medium term as market confidence remains weak and uncertainty continues. These times call for a period of consolidation, focus on cash flow generation, strict working capital management, as well as maximising internal cost efficiencies. Various opportunities for growth in East Africa, coupled with continued medium-term demand for infrastructure, and our strong base of annuity income are expected to drive an improved performance in the year ahead.

Conditions for the first half of the new financial year will be particularly challenging, especially given the high base of the comparative period in the prior year. However, the board is confident that the Altron group is well positioned to take advantage of any improvement in the current economic environment, given the remedial actions that have been put in place.

Acknowledgements

I would like to thank the people of Altron for their support and the constructive way they have been embracing the challenges posed by the current economic climate. To our customers, suppliers and partners, your contribution to Altron is immeasurable and we thank you for your ongoing support. Finally, to the chairman and the board of directors: thank you for your wise counsel and also to my executive committee for their dedication in driving Altron forward.

RE Venter – Chief Executive

May 2009

Key growth drivers for the group

Infrastructure spend



Technology convergence



Integration of acquisitions and launching of new ventures



Global footprint

