

Chief financial officer's report



Alex Smith Chief Financial Officer

Introduction

This report is intended to provide some additional insight into the financial performance of the Altron group for the year under review. The report needs to be read in conjunction with the consolidated annual financial statements presented on pages 126 to 205.

Results of the current financial year

The financial year ended 28 February 2009 was really one of two very different halves. During the first half of the year, the group experienced favourable trading conditions with each of the sub-groups producing good growth off what was already a strong base. The global financial crisis and the rapid decline in the macro-economic environment coincided with our half year and had a pronounced effect on the second-half results. The impact was most dramatically felt in our Powertech energy cables business, but several of our other businesses were also affected.

Macro-economic factors

Decline in commodity prices

Commodity prices in general have substantially declined since August 2008, with the group being significantly exposed to the rapid decrease in the copper price. Copper is a key input into our energy cables business, comprising between 60% and 90% of the value of a power cable. The unprecedented collapse in the price

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of copper in September and October 2008 left the group holding substantial copper stocks valued at considerably higher prices than market value. This also had a negative effect on demand, since traders reduce their orders to the minimum while prices are declining.

The decline in commodity prices also had a dramatic effect on the mining industry in South Africa which forms an important component of our customer base. The lower prices have reduced the number of feasible projects in this sector, and consequently the projected capital expenditure into the future.

Funds liquidity

Access to funding became considerably tighter following the events of last September and has undoubtedly constrained growth in many of the sectors which the group serves. The building and construction sector, which had already been impacted by high local interest rates as well as last year's power outages, was particularly affected. This sector is one of the largest contributors to Powertech's revenue.

The liquidity crisis has also meant that financial institutions, which are served by various Bytes companies, are facing much more challenging times than they have experienced in the last few years. This has resulted in margin pressure on suppliers into that sector, as well as the deferral of significant investments, particularly in the information technology arena.

Financial performance

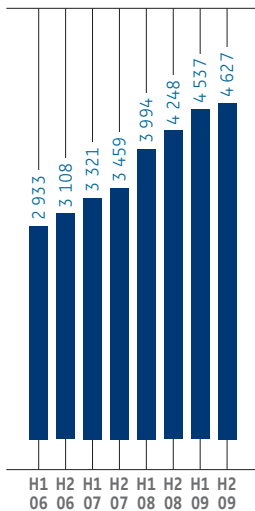
Altron's results were significantly impacted by these factors, which were principally reflected in the reduction in the group's EBITDA margin from 10.3% to 9.0% and EBITDA increasing by only



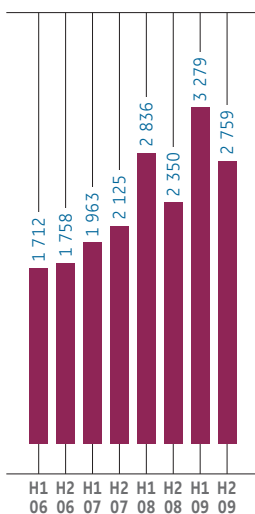
Chief financial officer's report continued

Revenue

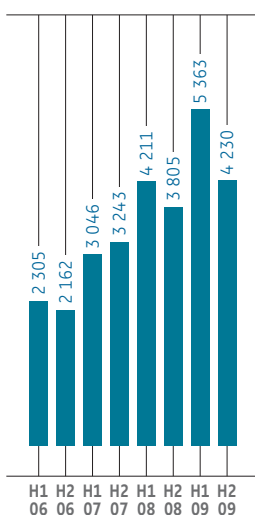
Altech (Rm)



Bytes (Rm)



Powertech (Rm)



1% to R2.2 billion. This reduction in margin was disappointing, but reflected the significant once-off charges and subdued second-half performance by Powertech as well as margin pressure at Bytes, offset by the margin enhancement at Altech from its East African acquisitions.

The revenue growth achieved was pleasing given market challenges. From a group perspective, approximately half of Altron's revenue growth came from acquisitions concluded during the year and half from organic revenue growth, with a similar trend demonstrated in each of the subholding groups. Powertech's organic growth of 9.5% was largely driven by an exceptional first-half performance – the second half actually saw a contraction, largely as a result of lower revenue out of Aberdare Cables.

The EBITDA margin at Powertech saw a significant decline from 12.8% in the prior year to 7.7% in the current year. This included once-off expenses that occurred in the second half of the year, comprising three elements, namely:

- » the fall in the copper price required inventory write downs of R130 million, which translated to both direct writeoffs and a lower gross profit as we reduced our inventory levels;
- » the impact of the destocking of the distribution channel added a further cost of around R78 million in terms of lost gross margin on sales and production variances on lower volumes through our facilities; and
- » incurring restructuring costs of around R20 million in the energy cables business as Powertech rightsized the operation to the lower levels of demand in the current market.

The balance of the decline is attributed to the lower levels of demand in the energy cables market and its impact on the operational leverage of the business. In analysing the results, it is important to look at the first half/second half split for Powertech since the turning-point broadly coincided with our interim reporting and the once-off costs highlighted above, occurred exclusively in the second half of the year.

The other key feature in the results for the current year was the change from net investment income of R93 million to a net financing cost of R108 million. This R201 million swing accounts for 46 cents of the reduction in Altron's headline earnings per share. This movement was caused primarily by the large investment in acquisitions that the group made in the past 18 months. These included the R550 million Powertech IST acquisition in September 2007, which was fully funded by debt; as well as the US\$75 million Altech East Africa acquisition, the R320 million Powertech Transformers acquisition and the R252 million of Bytes acquisitions that were all funded out of cash resources. Furthermore, we saw investment into working capital caused by the high activity in the first half of the financial year, which was only normalised in January and February this year.

Capital items were down on the last financial year, as a result of two goodwill impairments taken by the group. Intellecta had a disappointing year due to project delays, resulting in a R50 million goodwill writedown, though the magnitude of the writedown was amplified by the change in market conditions between a year ago and the current environment. Despite the writedown, we believe in the future value of the business based on its intellectual property and a sound management team.

Powertech incurred a R40 million writedown of goodwill in the IST Telecoms division for similar reasons. However, the group assessed the IST business as a whole in looking at the investment case, and if the goodwill impairment test had been done at that level, then there would have been no impairment, since other areas of the business have outperformed expectations. After the goodwill impairment there is still approximately R400 million of goodwill on the balance sheet in respect of IST. These two impairments were offset by a R58 million profit on the disposal of Yelland Control by Powertech in April 2007, as well as a R28 million gain on the disposal of two properties in the Aberdare group.

The trading factors outlined above resulted in a decline in diluted adjusted headline earnings per share of 18% to 277 cents. This parameter adjusts for the dilutive effect of the various B-BBEE transactions that have yet to fully vest in the group, as well as the amortisation of intangibles arising on acquisitions – an amount that has become material in light of the significant acquisitions concluded during the past 18 months.

Financial position

Altron has experienced considerable growth in the balance sheet due to several acquisitions, as well as a significant investment in capital expenditure. As a result, total assets have increased by some 24% to R13.6 billion and net asset value per share has increased by 8% to R15.50.

The Powertech Transformers' and Altech's East African operations that were recently acquired, are both relatively capital-intensive and this has significantly increased our investment in non-current assets. In total, our acquisitions during the year added R1.5 billion to non-current assets, while there was a further R1 billion invested in capital expenditure. This level of capital expenditure is significantly higher than the group has incurred previously and can be attributed to the extensive investment into the fibre optic network in East Africa, as well as substantial investments into the cables business to rationalise and improve the efficiencies of the manufacturing facilities.

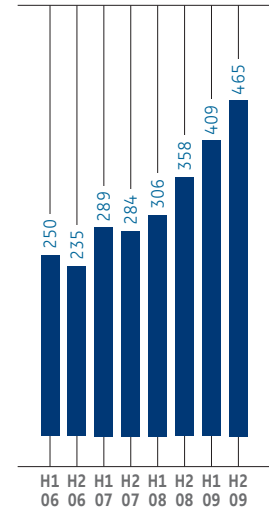
These events were the primary causes of the reduction of R913 million in the net cash position and the increase in the borrowings position, resulting in a net borrowed position of some R392 million. Gearing has been introduced in a conservative manner and despite the change in the availability of funding, does not present any material risk to the group.

Net cash and cash equivalents of R1.2 billion is after offsetting overdrafts of approximately R928 million at the current year-end. Altech centrally manages its cash position, while the cash position of Bytes and Powertech are actively managed through Altron's centralised treasury in order to minimise leakage arising from cash and overdraft balances in different areas of the group.

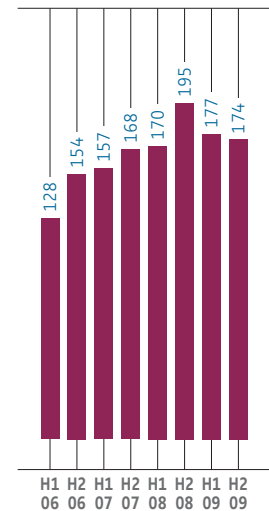
The additional investment in working capital of some R232 million for the year represented a net investment of 21 days, compared to the 17 days achieved in the previous year. There were pleasing reductions in inventory days and debtor days, but these were offset by the reduction in creditor days, chiefly as a result of virtually no copper purchases in January and February as inventories were reduced in the cables business. The reduction in inventory and

Operating profit

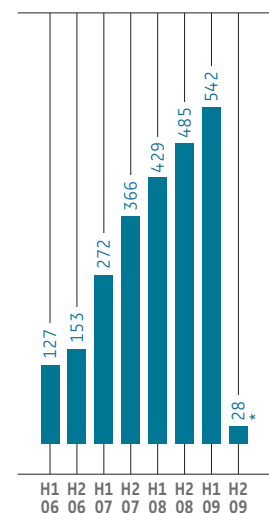
Altech (Rm)



Bytes (Rm)



Powertech (Rm)



*Includes once off charges estimated at R228 million.



Chief financial officer's report continued

debtor days was slightly less than expected due to some payment delays on a couple of large debtors, as well as higher inventories in the Bytes group as the Document Solutions business unit took advantage of some favourable pricing on hardware from Xerox. Working capital continues to be a major focus area in all operations and Altron's target will be to return to the net 17 days position achieved at 29 February 2008.

Key risks

Access to funding

Despite tight funding conditions in the local market, we do not foresee any material refinancing risk given the strong operational cash flows that the group generates. The only significant refinancing risk that the group faces is the IST acquisition funding of R550 million, though this will only occur in September 2010. Given the group's strong cash flows, it is unlikely that the full amount will require refinancing.

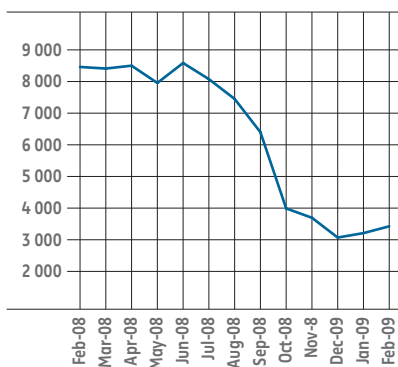
In the course of a financial year we often require some form of short-term working capital funding and this is made available to us through various uncommitted facilities with several local and international banks. Due to our financial strength and good credit standing we have been able to access these facilities, even through the height of the liquidity crisis. However, should there be any significant deterioration in the global liquidity position, this could present a risk to the group, and consideration is being given to securing committed facilities from our bankers. This situation is regularly and closely monitored by Altron's finance and treasury department.

Commodity price movements/foreign exchange movements

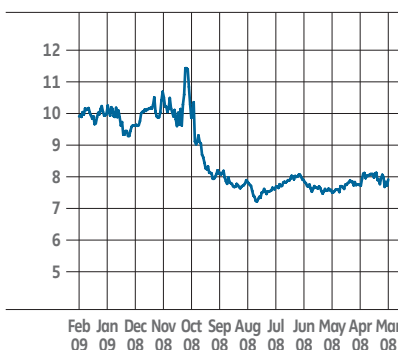
The volatile environment in which we operate today is most evident in commodity prices and in the movements in foreign exchange rates, both areas where the group faces risks. The group's policy is not to speculate in these areas and the risks are managed as follows:

- » Foreign exchange exposures, where there is no natural hedge available, are hedged immediately through the use of forward exchange contracts. This is achieved centrally through Altron Treasury in order to leverage off our purchasing power, and is effectively monitored and controlled to ensure compliance with exchange control regulations. Compliance with our policies is monitored both by Altron's internal audit department and the external auditors.
- » Our largest exposure to commodity prices is in respect of the copper utilised in energy cables. For sales into the formal sector such as Eskom and the municipalities, Powertech passes on the copper price risk to the customer. However, for sales into the informal sector, such as to electrical wholesalers, we carry the risk on copper price movements. Hedging of copper purchases is not an option due to the way the external market price adjusts to changes in the copper price. Consequently, risk in this regard is managed through minimising the length of time between the raw material purchase and the finished goods sale.

Closing three-month copper price (US\$)



R/US\$ exchange rate (rand)



Credit risk on debtors

Although there is an increased risk of default by trade debtors in the current economic climate, to date we have not experienced any adverse consequences in this regard.

In order to manage this risk as effectively as possible, we have tightened our credit lending criteria, particularly in those areas where we are exposed to consumers. As a result, Altech Autopage Cellular is now rejecting around 45% of applications. Powertech makes use of credit guarantee insurance in respect of sales to non-blue-chip and non-governmental debtors.

Credit sales and debtor balances will continue to be closely monitored and managed going forward, both from the perspective of minimising the risk of bad debts and maximising collections.

Conclusion

The second half of the last financial year was an extremely challenging one and we do not anticipate any relief in this regard in the short term. However, we are a well-diversified group of companies, with a strong balance sheet and a culture of stringent financial control.

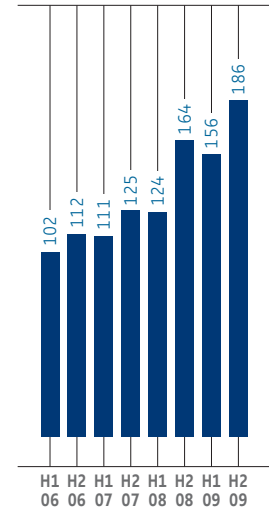
I would like to thank all of the financial and administrative staff around the group for their sterling efforts in the last year and, in particular, for all their hard work in delivering these financial results and this annual report.

Alex Smith – Chief Financial Officer

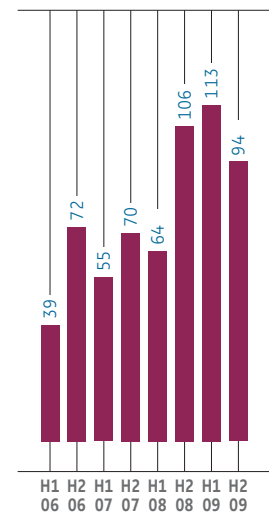
May 2009

Headline earnings

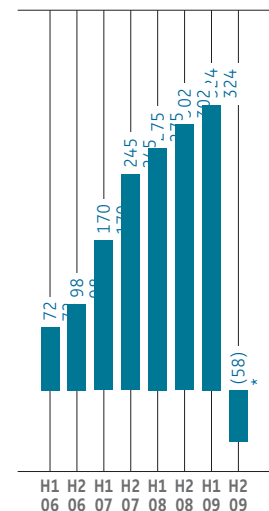
Altech (Rm)



Bytes (Rm)



Powertech (Rm)



*Includes non-recurring charges estimated at R164 million.

