

# Financial review



Despite the gloomy economic conditions which prevailed during the 2009 financial year, Mvelaphanda Group succeeded in growing its business, albeit marginally. This in itself is a great achievement given the decline in the GDP growth rate into negative territory with consumption expenditure continuing to contract as households remain financially distressed. Business entities, particularly in mining and manufacturing, which represents a large portion of our clientele, are experiencing financial pressures as a result of the financial turmoil.

Despite the adverse economic climate, the Group succeeded in growing its revenue by 6% and operating profit by 4%. The year under review saw the Group starting to generate positive cash flows from its strategic investments, and the Group managed to slow the pace of cash outflows during the last six months of the financial year.

The Group has also succeeded in reducing its weighted average cost of capital to 12% as well as improving its debt-equity ratio to 44,0% from 58,6% the previous year. The return on investments amounted to only 2,1%, mainly as a result of the upward fair value adjustment on major investments. This was partly offset by a reversal of deferred tax assets in respect of the downward fair value adjustment of certain investments. The margin

represents a huge improvement from the negative returns of 2008. Return on operating assets increased to 15,1% for the 2009 financial year from 10,4% the previous year.

## Financial reporting controls

Working capital and cash flow management are regularly monitored as is evidenced by the low increase of only R9 million in working capital for the year under review compared to R120 million the previous year. This is commendable when measured against revenue growth of R207 million and R77 million in the 2009 and 2008 financial years respectively.

Group companies are conservatively geared with all investment funding being approved by the Mvelaphanda Group board. Where possible, investments continued to be financed on a ringfenced basis, with the relevant financier only having recourse to the specific investment which they have financed, and not the Group as a whole. In certain instances the non-recourse financing is contained in special-purpose vehicles (which are not classified as subsidiaries of Mvelaphanda Group). Similarly the liabilities are not included on the Group's balance sheet. Details of the off-balance sheet liabilities are provided later in this report. No new investments were made during the year under review. The financing of the 2008 investment in Avusa was finalised during the 2009 financial year.

## Financial review continued



The Group's internal audit department continued to play an important part in the overall system of financial control and ensures that internal controls and accounting standards are maintained in line with the Group's requirements.

### Financial performance

The Group derives income from its operating and investment activities which are more fully described in the operations and investment reports respectively.

Revenue of R3 746 million was 6% ahead of the prior year's revenue of R3 539 million with profit from operations increasing by 4% to R256 million from R247 million the previous year. Earnings before interest, tax, depreciation and amortisation ("EBITDA") were R374 million compared to R394 million in the prior year, a decrease of 6%.

Net interest paid for the year amounted to R145 million compared to net interest received of R57 million in 2008. The decrease was mainly as a result of lower cash balances for the year under review together with the introduction of the debt incurred to part fund the acquisition of the investment in Avusa and the full-year effect of the debt relating to the investment in Vox Telecom acquired the previous year.

The gross interest earned on cash balances yielded an effective 9,1% return per annum, whilst the average cost of debt in 2009 increased to 13,4% from 11,6% in 2008.

Dividend income for the year under review amounted to R50 million compared to R11 million in 2008.

The fair value adjustments and profit and loss, excluding dividend income, from investments amounted to a net gain of R315 million for the 2009 financial year against a loss of R1 631 million for the previous year. Included in the net gain is a R37 million fair loss relating to the fair value adjustment on the interest rate swap as a result of the forward prime curve (used to predict three-month JIBAR) predicting lower interest rates. The Group values its portfolio of investments in accordance with International Financial Reporting Standards ("IFRS"), specifically IAS 39, *Financial instruments measurement and recognition*.

A loss from associates in the amount of R34 million was recorded for the current year compared to a loss of R526 million the previous year. The share of loss from associates of R34 million is net of an impairment of R116 million mainly in respect of the Group's interest in Avusa in which Mvelaphanda Group holds a 25,5% interest.

The amortised cost on the 124 425 055 redeemable option-holding shares ("BEE shares"), issued during the 2007 financial year by the Group, relating to employees, has been recognised in the income statement in accordance with AC 503, *Accounting for black economic empowerment (BEE) transactions* at R16 million for the current financial year.

## Financial review continued

Tax of R250 million was charged to the income statement of which R28 million resulted from the payment of secondary tax on companies in respect of ordinary and preference share dividends paid during the year and R168 million in a deferred tax charge relating mainly to the net fair value gain on strategic investments. Of the aforementioned R168 million, R74 million relates to the reversal of the deferred tax provisions mentioned on page 22 in the introductory paragraph.

Ordinary dividends totalling R118 million were paid during the year under review in respect of a final dividend declared for the 2008 financial year, whilst a dividend of R30 million was paid to preference shareholders during the year. The 54,7 million convertible perpetual cumulative preference shares are convertible at the instance of the holder into 1,08 ordinary shares for each preference share held between 4 November 2009 and 4 November 2010, after which date the preference shares are redeemable either at the instance of Mvelaphanda Group or remain as perpetual preference shares. The further reduction in the conversion price of the preference shares to R9,30 per share from R10,00 per share (2008: R9,53) was published on SENS (4 December 2008) in line with the terms of the offering circular issued to Mvelaphanda Group's shareholders dated 4 November 2005.

The weighted average net number of ordinary shares in issue decreased by 2,4% to 407 million ordinary shares at 30 June 2009 from 417 million ordinary shares at 30 June 2008 as a result of a full-year effect in respect of share buy-backs during the previous financial year. No share buy-backs were undertaken in the current financial year. The 465 million diluted weighted average net number of ordinary shares in issue is calculated on the basis that all the preference shares will be converted to ordinary shares on 4 November 2009.

Taking the above into account, earnings per share amounted to 21,9 cents compared to a loss per share of 368,0 cents in the previous year. The headline earnings per share amounted to 49,9 cents compared to headline loss per share of 362,6 cents in the previous year.

### Cash flow

The Group generated R363 million cash from its operating activities for the year under review compared to R271 million the previous year, whilst R52 million cash was generated from investment activities for the 2009 financial year, an increase of R41 million from the previous financial year. The Group's cash position, however, reduced by R400 million to R470 million at 30 June 2009, mainly as a result of the cash portion of the Avusa acquisition as well as increased debt repayments during the financial year.

Cash earnings per ordinary share generated from operations, which is a critical guideline for determining the annual dividend paid to ordinary shareholders, decreased to 21 cents in 2009 from 39 cents the previous year.

### Financial position

Total interest-bearing liabilities at 30 June 2009 decreased to R1 765 million from R2 120 million the previous year, which decreased the Group's debt-equity ratio to 44,0% from 58,6% the previous year of which 8,2% was a result of the net positive after-tax fair value adjustment of strategic investments. Of the R1 765 million, R1 558 million was ringfenced to the specific underlying asset financed.

The outstanding capital balances in respect of non-recourse funding contained in special-purpose entities (which are not classified as subsidiaries of Mvelaphanda Group) relating to the original acquisition of certain investments by Mvelaphanda Group, decreased to R448 million at 30 June 2009 from R479 million at 30 June 2008.

Financial review continued

Details of this non-recourse funding are set out below:

<b>Company</b>	<b>Institution</b>	<b>Nature of facilities</b>	<b>Total capital liability (R million)</b>	<b>Mvelaphanda Group's attributable portion (R million)</b>
Batho Bonke Capital (Pty) Limited	Sanlam Limited	Preference shares	Nil	Nil
Fundiswa Investments (Pty) Limited	Rand Merchant Bank	Term loan/ Preference shares	382,0	133,3
Unitrans Express Deliveries (Pty) Limited	Steinhoff International Holdings Limited (formerly Unitrans Limited)	Preference shares	24,8	24,8
Unitrans Fuel and Chemicals (Pty) Limited	Steinhoff International Holdings Limited (formerly Unitrans Limited)	Preference shares	55,7	55,7
Lexshell 650 Investments (Pty) Limited	Group Five Limited	Notional loan	234,3	234,3
<b>Total</b>			<b>696,8</b>	<b>448,1</b>

Investments in associates decreased marginally to R721 million from R780 million the previous year mainly as a result of accounting for the Group's share of net profit in Avusa in the amount of R78 million less dividends received of R16 million and a further impairment of the Avusa investment amounting to R116 million.

No significant acquisitions or disposals of strategic investments were made during the year. The net carrying amount increased to R3 876 million at 30 June 2009 from R3 559 million the previous year mainly as a result of net fair value gains arising from the revaluation of these investments of R467 million. The repayment of R163 million in respect of shareholders' loans included in the strategic investments were repaid by investees during the current year, which were set off against the valuation increase.

### Capital structure

No new ordinary shares or preference shares were issued during the current year with the issued ordinary share

capital of the Company remaining unchanged at 443 000 223 ordinary shares of which 35 765 285 are held as treasury shares by a subsidiary. BEE shareholders owned and/or controlled 52% of the Company's issued ordinary shares at 30 June 2009 taking into account the 124 425 055 BEE shares in issue and excluding the treasury shares.

Net tangible asset value per ordinary share, which is calculated based on 465 million ordinary shares in issue, assuming that the preference shares are converted into ordinary shares after November 2009, increased by 24% to R6,33 at 30 June 2009 from R6,20 at 30 June 2008.

### Intrinsic net asset value

The decrease in the Group's cash position contributed to 17% or R0,15 of the decline of R0,78 in the intrinsic net asset value per share to R7,90 at 30 June 2009 from R8,68 the previous year. A more conservative valuation of operations, in line with the current economic environment, contributed to a decline of 8,98% or R0,78 in the net intrinsic value per share.

# Financial review continued

The intrinsic net asset value per ordinary share, net of capital gains taxation and debt, is set out in the table below:

	30 June 2009				30 June 2008	
	Intrinsic gross asset value (after CGT) Rm	Debt Rm	Intrinsic net asset value Rm	Per share ( <sup>(1)</sup> , <sup>(2)</sup> ) R	Intrinsic net asset value Rm	Per share ( <sup>(1)</sup> , <sup>(2)</sup> ) R
Absa <sup>(3)</sup>	880	—	880	1,89	716	1,54
Avusa	529	(851)	(322)	(0,69)	(379)	(0,82)
Life Healthcare	1 991	(365)	1 626	3,49	1 425	3,07
Group Five	211	—	211	0,45	361	0,78
Vox Telecom	107	(342)	(235)	(0,50)	(14)	(0,03)
Other investments	61	—	61	0,13	62	0,13
Mvelaserve	1 195	(156)	1 039	2,23	1 374	2,96
Net cash	470	(50)	420	0,90	489	1,05
<b>Total</b>	<b>5 444</b>	<b>(1 764)</b>	<b>3 680</b>	<b>7,90</b>	<b>4 034</b>	<b>8,68</b>

<sup>1</sup>Based on the fully diluted net number of 465 million ordinary shares after share buy-backs and assuming that all the preference shares will be converted into ordinary shares after November 2009 (2008: 464 million).

<sup>2</sup>The BEE shares issued in June 2007 have not been taken into account in calculating the intrinsic net asset value per ordinary share as the minimum option strike price of R17,50 is greater than the current Mvelaphanda Group ordinary share price.

<sup>3</sup>Value is after deducting outstanding debt at Batho Bonke level.

The above valuation is based on, *inter alia*:

- » a combination of the market value, volatility and expected dividend yields in the case of investments listed on the JSE;
- » application of option-pricing model in the case of the Group Five investment;
- » directors' valuation of other investments, taking into consideration the economic factors prevailing at 30 June 2009; and
- » the gross cash position of the Group at 30 June 2009.

Based on the Mvelaphanda Group ordinary share price on the JSE of R4,50 on 30 June 2009, the ordinary shares were trading at a discount of 43% to the Group's intrinsic net asset value per share of R7,90 at that date.

Based on the Mvelaphanda Group ordinary share price on the JSE of R6,20 on 31 August 2009, the ordinary shares were trading at a discount of 24,7% to the Group's intrinsic net asset value per share of R8,23 at that date.

## Cash distributions and dividends

In order to preserve cash and in a concerted effort to increase the rate of debt reduction, no dividend was declared in respect of ordinary shares for the current financial year. The total distributions to ordinary shareholders in lieu of ordinary dividends amounted to 27 cents per ordinary share for the previous year.

Preference dividends are paid to preference shareholders at a fixed rate of 5,5% per annum, equating to 55 cents per preference share for the current year.

Total payments to shareholders during the current year were R148 million, which includes dividends paid to ordinary shareholders of R118 million and dividends paid to preference shareholders of R30 million.

Financial review continued**Financial returns**

The financial returns achieved are set out in the table below:

	2009	2008
Operating profit (%)	6,9	7,0
Cash generated from operations as a percentage of operating profit (%)	70,7	109,9
Cash earnings per ordinary share (cents)	20,7	39,3
Free cash flow, after adjusting for changes in debt (R'000)	131 954	30 802
Debt-equity ratio (%)	44,0	58,6
Return on average shareholders' funds (:1)	6,0	(47,4)
Return on net operating assets (:1)	2,1	(47,7)
Return on net investments (:1)	15,1	10,4
Weighted average cost of capital (%)	12,0	(6,4)
Earnings yield (based on ordinary share price at 30 June) (%)	8,2	(61,3)
Dividend yield (based on ordinary share price at 30 June) (%)	—	4,5
Dividend cover (times)	—	(13,6)
Cash dividend cover (times)	—	1,5

**Conclusion**

The results for the year under review have been extremely satisfactory given the negative economic environment within which the Group operated.

**Acknowledgements**

I extend my sincere thanks and appreciation to all our financial personnel for their continuous and dedicated support throughout the year under review, which made this report and the presentation of the financial statements possible.


**Ernst Röth**

Chief Financial Officer