

“For more than 70 years, Altron people have created an asset of incalculable value – the company’s reputation for integrity and high standards of business conduct. That reputation, built by so many people over so many years, rides on each business transaction we make.”

*Internal memorandum,
August 1994*

Introduction

Since its founding in April 1965, Altron has transformed from a small electronics firm with five employees to one of the leaders in South Africa’s high-technology industry – focused on power electronics, telecommunications, multi-media and information technology.

Today, the Altron group employs approximately 11 000 people through over 140 companies and associates on five continents. It is Africa’s foremost diversified technology group with revenue exceeding R14 billion, a sound balance sheet and a business founded on honesty, sustained performance, good corporate governance, sound management practice and supportive leadership.

Altron has long been a forerunner in employment equity and black economic empowerment, before either concept became an integral part of modern business practices.

Certain characteristics pervade our group – the Altron hallmarks of the way we do business, every day:

- strong bias for action
- acknowledgement of the dignity of all our people
- the skill to treat customers and suppliers with respect
- ability to enhance profits by controlling costs
- attention to detail
- remaining at the forefront of the technology curve
- the courage and tenacity to deal with rapid change.

These values were recognised by a 2005 merit award from the South African Institute of Chartered Secretaries and Administrators which, in conjunction with the JSE, evaluates annual reports on corporate information and governance, among other elements.

Compliance

Altron subscribes to the values of good corporate governance contained in King II and its key principles are reflected in our governance

structures. These are regularly reviewed to incorporate changes and developments in this field.

The directors recognise the need to conduct the group's business with integrity and according to sound corporate practices. These include discipline, independence, responsibility, fairness, social responsibility, transparency and accountability of directors to all stakeholders.

These principles are entrenched in Altron's internal controls and policy procedures governing corporate conduct. In assessing the practices and conduct of the group, two factors have been balanced:

- ▶ entrepreneurial freedom to take business risks and initiatives leading to satisfactory levels of performance and return on shareholders' investment
- ▶ conforming to corporate governance standards, which can impose constraints on management.

The board is satisfied that Altron has made every practical effort to comply with all material aspects of King II during the review period. In the new financial year, and reflecting our determination to constantly improve our standards, Altron will be among the forerunners in South Africa by having its corporate governance assertions independently audited and assured.

Approach

Leadership

The board supports the long-term sustainability of corporate capital, triple bottom-line performance and balancing the interests of stakeholders with the good of the group. The detailed responsibilities of the board, as set out in its charter (initially approved in April 2002, revised and adopted by the board in February 2006), include the duty to:

- ▶ exercise objective, informed judgement on the business affairs of the company
- ▶ determine and monitor the implementation of strategic plans and financial, environmental and social objectives
- ▶ ensure that a system of policies and procedures is in place and maintained and that suitable governance structures exist to ensure the efficient and prudent stewardship of the company
- ▶ ensure Altron complies with all relevant laws, regulations and codes of practice
- ▶ regularly review and evaluate business risks and ensure comprehensive, appropriate internal controls are in place
- ▶ define levels of authority, reserving specific powers and delegating other matters to the chief executive
- ▶ continually monitor the exercise of delegated authority

- ▶ ensure an appropriate balance of power and authority on the board so that no one person or a block of persons has unfettered power
- ▶ identify and monitor non-financial aspects relevant to the company's business and ensure that the company acts responsibly towards all relevant stakeholders with a legitimate interest in its affairs.

Accountability

The board takes overall responsibility for the company. Its role is to exercise leadership and sound judgement in directing the company to achieve continuing prosperity and to act in the best interests of all stakeholders.

Transparency

Full and timeous disclosure of information to stakeholders is prescribed by various policies governing communication and conduct with stakeholders.

Board structure and related matters

Composition

Altron has a unitary board consisting of 15 directors. Of these, five are independent non-executive directors while two are non-executive and eight are executive directors. Subsequent to the financial year-end, and effective 1 May 2006, Douglas Ramaphosa was appointed

an alternate director to Dr HA Serebro and a member of the Altron executive committee.

The board charter is reviewed from time-to-time to ensure its continued compliance with local and international best practices and changes to the South African regulatory environment.

Chairman and chief executive

In line with best practice, the roles of chairman and chief executive are separate. The board is led by Dr Bill Venter. Operational management of the group is the responsibility of the chief executive, Robert Venter.

Particular areas of responsibility for the chairman include strategic planning, relationships with principals, government and customers, group economic empowerment, corporate relations, top-level contact with regulatory bodies, and advice and guidance on local and overseas acquisitions.

This level of material involvement is considered essential by the board, given the intrinsic knowledge and experience the chairman brings to bear in the effective running of the board and guidance to the operational team. It is governed by a formal board-approved mandate which is reviewed from time-to-time where appropriate, regulating the terms of reference of the office of the chairman.

Directors

The non-executive directors bring value and insight to the board. They are individuals of high calibre and integrity and provide a depth of wisdom based on knowledge and experience on an array of issues. The composition of the board ensures a balance of power and authority, and negates individual dominance in decision-making processes.

The non-executive directors have no fixed term of appointment and no service contracts with Altron. Their fee is independent of the group's financial performance and they receive no share options.

Executive directors are bound by the standard terms and conditions of employment for all Altron employees where their notice periods are short term, not exceeding 60 days.

Directors are subject to retirement by rotation and re-election by shareholders at least once every three years under article 16 of Altron's articles of association.

To avoid conflicts of interest, board members must disclose their interests in material contracts involving the group, including shareholdings in Altron as well as any other directorships. Board members must recuse themselves when participation in deliberations or decision-making processes could in any way be affected by vested interests.

Effectiveness of the board

The board evaluates its own effectiveness at least every two years or more often if required by board changes. In 2005, all directors participated in this self-assessment. Overall ratings improved substantially, indicating a greater understanding of statutory and fiduciary responsibilities, improved collective and individual functioning and effective communication between board members.

The level of commentary and constructive criticism, and areas identified for improvement, are a sound platform from which to further improve the value of the board to the group and its governance structures.

Company secretary

All directors have access to the advice and services of the group company secretary, who is responsible to the board for ensuring compliance with procedures and applicable statutes and regulations. To enable the board to function effectively, all directors have full and timely access to all information that may be relevant to the proper discharge of their duties and obligations. This includes information such as corporate announcements, investor communications and any other developments which may affect Altron or its operations. The office of the group company secretary is responsible for facilitating this access.

All directors, executive or non-executive, may liaise with the group company secretary on agenda items for board meetings. Where appropriate, directors may also consult with independent professionals, at Altron's expense, for advice on certain issues.

The group company secretary provides counsel and guidance to the board, individually and collectively, on their powers and duties. The group company secretary is also responsible for the development of director training. All new directors, where relevant, are appropriately inducted to Altron by the group company secretary, which includes a briefing on their fiduciary and statutory duties and responsibilities as well as two- to three-day induction visits to group operations around South Africa.

The group company secretary is responsible for the functions specified in section 268(G) of the Companies Act, of 1973 (as amended). All meetings of shareholders, directors, and board committees are properly recorded as per the requirements of section 242 of the same Act. The removal of the group company secretary would be a matter for the board as a whole.

Board meetings

A minimum of four board meetings are scheduled per financial year. Additional board meetings may be convened when necessary. Four board

meetings and two strategy sessions were held during the past financial year. Details of attendance by each director at board and committee meetings appear on page 101.

Board committees

The board has established several committees in which non-executive directors play an active and pivotal role. All committees operate under board-approved terms of reference which, with the exception of the executive committee's terms of reference, were reviewed and updated in February 2006 to further align them with best practice. All committees, except the executive committee, are chaired by an independent non-executive director, who also attends the annual general meeting to respond to stakeholder queries.

Members of each committee, except the executive committee, are re-elected every year at the first board meeting following the annual general meeting.

Executive committee

■ **Members** – Robert Venter (executive committee chairman), Diane Radley, Craig Venter, David Redshaw, Norbert Claussen and Peter Curle (the executive structure appears on pages 8 to 9). Subsequent to the financial year end, Douglas Ramaphosa was appointed to the Altron executive committee.

- **Composition and proceedings** – the committee meets monthly with additional meetings convened when necessary.
- **Role** – this committee comprises the chief executive and certain senior executives of the group. It is responsible for the operational activities of the group, developing strategy and policy proposals for consideration by the board and implementing the board's directives. It has a properly-constituted mandate and terms of reference which are reviewed from time-to-time.

Audit committee

- **Members** – Peter Wilmot (chairman), Mark Lamberti, Mike Leeming and Jacob Modise.
 - **Composition and proceedings** – Diane Radley (chief financial officer) has right of attendance, while Dr Bill Venter (Altron chairman) and Robert Venter (chief executive) attend committee meetings by invitation. The committee meets periodically with the group's external and internal auditors and Altron's executive management. It also carefully monitors the use of the external auditors for non-audit related services: a formal policy dealing with the appointment of auditors for non-audit related services precludes services which would impair audit independence. Services rendered by the external auditors during the year comprised mainly compliance and other assurance-based engagements.
- External auditors attend meetings by invitation. At the year-end audit committee meeting, the chairman ensures that senior management and the external and internal auditors are able to candidly, and independently of each other, report back to the committee chairman on any aspect. Two meetings are scheduled annually, with special meetings called as required. The committee met twice during the period under review.
- **Role** – the committee has written terms of reference and its responsibilities include:
 - considering the appointment and/or termination of the external auditors, including the audit fee, and their independence and objectivity
 - considering and setting mandatory term limits on the period the external auditors or audit partner may serve the company
 - confirming internal audit's charter and audit coverage plan
 - determining with the external auditors the nature and scope of the audit and ensuring co-ordination where more than one firm is involved
 - reviewing the risk areas of the company's operations to be covered in the scope of internal and external audits
 - reviewing half-year and annual financial statements before submission to the board focusing on:

- any changes in accounting policies and practices
 - major judgemental areas
 - significant adjustments arising from the audit
 - the going-concern statement
 - compliance with accounting standards
 - compliance with stock exchange and statutory requirements
 - reliability and accuracy of the financial information provided by management and other users of financial information
- discussing any problems and reservations arising from the interim and final audits and any related matters that the external auditors may wish to discuss.

The internal and external auditors have unlimited access to the chairman of the committee. The internal audit department reports directly to the audit committee and is also responsible to the chief financial officer on day-to-day matters.

Remuneration committee

- **Members** – Jacob Modise (chairman), Myron Berzack, Peter Wilmot and Dr Bill Venter.
- **Composition and proceedings** – The committee comprises a majority of non-executive directors. Robert Venter (chief executive) has right of attendance at committee meetings, and

Diane Radley (chief financial officer) attends by invitation. No executives participate in discussions on their own remuneration and benefits. Two meetings are scheduled annually, with special meetings called as required. The committee met twice during the period under review.

- **Role** – this committee, in consultation with executive management, ensures that the group’s directors and senior executives are fairly rewarded for their individual contributions to overall performance and in line with the Altron remuneration philosophy. Further details appear in the remuneration report on page 102.

Risk management committee

- **Members** – Mike Leeming (chairman), Norbert Claussen, Dali Mpofo, Diane Radley, David Redshaw, Dr Harold Serebro, Dr Bill Venter, Craig Venter, Robert Venter and Peter Wilmot. Subsequent to the financial year-end, Dr Bill Venter has resigned as a member of this committee.
- **Composition and proceedings** – The committee has two scheduled meetings each year and met twice during the review period.
- **Role** – as the objective of risk management is to identify, assess, manage and monitor risks to which the business is exposed, Altron’s selected approach involves identifying strategic risks, reviewing their impact, assessing the probability

of occurrence and monitoring the perceived effectiveness of existing controls.

In understanding the risk universe, both the impact and probability of risk are ranked on nine-point scales: from catastrophic to negligible for the former; from negligible to confidently expected for the latter. Inherent risk is ranked similarly to the impact of risk while control effectiveness is measured as either good, satisfactory, corrective action required or deficient.

Depending on the value of the residual risk exposure, management will decide on the acceptance of the identified residual risk or exposure. If considered high, an action plan – stipulating the responsible person, required action and timeframe – will be put in place to reduce the level of risk to a more acceptable level.

The major consolidated risks identified at the beginning of the review period were:

- the lack of black economic empowerment partners in certain operating companies
- the dependence on network operators (Altech Autopage Cellular)
- not achieving employment equity targets in certain subsidiaries
- the lack of adequate systems to extract operational management information.

The board has made good progress in addressing the level of empowerment partners in key operating companies (Altech and Pamodzi, BTG SA and Kagiso, Powertech and Izingwe). It is also liaising closely with the Department of Trade and Industry on issues relating to the department's recently-published draft Codes of Good Practice and creating a sustainable business environment. Initiatives to find suitable empowerment partners for other operations are ongoing, in line with the targets set and currently being reviewed in Altron's Transformation Vision 2010. These initiatives are championed by the respective human resources departments and monitored by the Altron executive committee and transformation sub-committee.

The dependence on network operators has been carefully mitigated through the 2005 signing of five-year service provider and incentive agreements with Vodacom and MTN, acknowledging the vital role played by independent service provision in the cellular industry in South Africa. Altech Autopage Cellular's existing agreement with Cell C expires in 2009.

The implementation of a corporate information system project aimed at providing accurate non-financial group information was fully implemented at BTG

by the end of 2005 and will be rolled out to the rest of the group in the new financial year.

Presently, management is focusing on two significant group risks:

- the liberalisation of the telecommunications market in South Africa
- the impact of import competition due to the strength of the rand, predominantly at Powertech.

Internal controls and internal audit

Internal controls comprise methods and procedures adopted by management to assist in achieving the objectives of safeguarding assets, preventing and detecting error and fraud, ensuring the accuracy and completeness of accounting records and preparing reliable financial statements. The group's approach is detailed in the directors' report on page 111 dealing with the approval of annual financial statements.

The internal audit function serves management and the board by performing independent evaluations of the adequacy and effectiveness of group companies' controls, financial reporting mechanisms and records, information systems and operations and provides additional assurance on safeguarding group assets and financial information.

The internal audit department assists management in ensuring proper compliance with controls and procedures while maintaining an appropriate degree of independence to render impartial judgements in performing its duties. A fraud hotline, established three years ago, enables Altron associates and employees to anonymously report suspected irregularities and has proved an effective tool. Throughout the group, 77 cases of theft, fraud and other dishonesty were recorded during the year. This is down significantly from 140 in 2002 and reflects the benefits of a proactive approach and the long-standing group policy on criminal prosecution.

During October 2005 PriceWaterhouseCoopers performed an independent current state assessment of the Altron internal audit department. The department was found to be in adherence to the Standards for the Professional Practice of Internal Auditing as issued by the Institute of Internal Auditors and was highly commended.

Nomination committee

- **Members** – Dr Penuell Maduna (chairman), Myron Berzack, Mike Leeming and Dr Bill Venter.
- **Composition and proceedings** – This committee comprises a majority of non-executive directors and was established in the 2004/5 reporting period. Robert Venter (chief executive) has right of attendance at committee meetings. There is

Corporate governance continued

no formal meeting schedule for this committee, which meets when required. The committee met twice during the period under review.

- **Role** – the committee is responsible for identifying and evaluating suitable potential candidates for appointment to the board as well as succession planning. It does not have the authority to appoint directors, which is a board function. A formal succession-planning policy is being finalised and will be implemented throughout the group in the new financial year.

The appointment of directors is a transparent and formal procedure governed by the Altron board charter. Factors influencing the selection process include skills, knowledge and qualifications: these are examined against the backdrop of Altron's strategies. Availability, number of external board appointments, diversity in demographics and experience in relevant sectors are also considered.

Transformation committee

- **Members** – This is a sub-committee of the Altron executive committee, with representatives from underlying group companies.
- **Composition and proceedings** – the transformation committee was established three years ago and has continued to drive

economic transformation and broad-based empowerment across the group.

- **Role** – Following the launch of the Altron Transformation Vision 2010 blueprint, the committee's mandate has been extended to develop a practical implementation plan and guiding manuals to ensure uniform application of the empowerment vision across the group. The committee is currently studying the draft Codes of Good Practice published by the Department of Trade and Industry and participated in industry comment on these codes. Once this process is completed, the Altron blueprint will be reviewed to closely align it with the legislated codes and relevant sectoral charters on empowerment.

Communicating with stakeholders

We believe the collective aim of corporate and political leaders should be achieving sustainable growth of their businesses and the economy as a whole. Altron, therefore, presents an integrated report to stakeholders each year, detailing triple bottom-line performance – economic, social and environmental.

While the directors are responsible for the preparation of the annual financial statements, management is responsible for maintaining adequate accounting records to ensure the integrity of these statements.

Building long-term and mutually-beneficial relationships with our shareholders and all stakeholders is fundamental to our ongoing business success. This includes providing timely, accurate announcements and circulars to shareholders in accordance with JSE Listings Requirements. In addition, Altron manages its relations with stakeholders by regular contact with domestic and international institutional shareholders and analysts through investor road shows, presentations and liaison with major shareholders.

Altron recognises the importance of shareholder attendance at annual general meetings. We believe this presents an important opportunity for shareholders – institutional and individual – to raise issues and participate in discussions relating to items in the notice of meeting. Every effort is made to encourage this attendance and participation.

Human capital

A fundamental requirement for achieving Altron's goal of continuing superior performance is employing dedicated and competent personnel, based on equitable recruitment practices. Our objective is to employ, train, use and retain the best personnel available and make diligent efforts to develop and motivate all employees to higher standards of performance.

Worker participation

Altron encourages employees to reach their full potential in a more participative management style environment. The group has numerous participative structures at operating company level for handling issues that affect employees directly and significantly. These structures have been established with trade unions and other employee representatives, and are designed to achieve good relations through effective sharing of relevant information, consultation and resolution of conflict.

Currently, Altron's various employers have collective agreements with recognised trade unions which regulate these relationships. Some 30% of the group's base of employees belong to a union.

***"As all employees are aware,
... the Altron Group is committed
to improving the working
conditions of all their employees,
irrespective of sex, race, religion
or colour."***

***Internal memorandum,
April 1977***

Affirmative action and employment equity

An affirmative action programme forms part of the group's business plan. Where possible, internal promotion is preferred and employees are given the opportunity to develop their potential.

Altron fully supports the government's initiative to achieve greater equity in the workplace and management of all group companies and is fully committed to complying with the Employment Equity Act of 1998 (as amended). Co-ordinating committees ensure that group companies achieve their employment equity objectives and that policies are properly implemented.

Our equity objectives include training and development programmes, appropriate sharing of information between employer and employee, and providing equal, non-discriminatory employment opportunities. Progress is regularly reported to the various boards and executive committees of Altron, Altech, BTG and Powertech and their respective business risk and audit committees.

"Dishonesty of any nature whatsoever will be reported to the appropriate authorities for action by the courts. Suspension or dismissal will follow if found guilty."

*Internal memorandum,
September 1977*

Corporate code of conduct

Altron is committed to promoting the highest standards of behaviour and the group's corporate code of conduct (page 47) sets out the expected behaviour of all employees in their dealings with our stakeholders. A detailed code of conduct forms part of the Altron group policy manual and outlines our ethos. All employees are required to maintain the highest ethical standards in ensuring that our business practices are conducted in a manner which, in all reasonable circumstances, is above reproach.

Share dealings

Altron and its sub-holdings have approved written policies on directors' dealings in securities. These require all directors who wish to deal in Altron or its sub-holdings' securities to obtain prior written

clearance from any two of the following senior executives – the chairman, chief executive or chief financial officer. The same restriction applies to the group company secretary. The chairman requires prior written clearance from the non-executive chairman of the Altron audit committee and the group company secretary.

The group operates closed periods as defined in the JSE's Listings Requirements. These periods

are communicated to directors, officers and employees in the group policy manual and a specific policy for directors. In addition, electronic and printed notices advise staff of imminent closed periods. During these periods, the group's directors, officers and employees may not deal in the securities of Altron, Altech or BTG as the case may be. Additional closed periods are enforced, when required, in terms of corporate activities.

Attendance of meetings

Director	Board				Audit		Remuneration		Risk		Nomination	
	2005			2006	2005	2005	2006	2005		2005		
	May	Aug	Oct	Feb	May	Oct	April	Feb	April	Oct	Oct	Nov
Dr WP Venter	✓	✓	✓	✓	✓ ¹	✓ ¹	✓	✓	✓	✓	✓	✓
RE Venter	✓	✓	✓	✓	✓	✓ ⁵	✓ ²	✓ ²	✓	✓	✓ ²	✓ ²
MC Berzack	✓	✓	✓	✓	n/a	n/a	✓	✓	n/a	n/a	✓	✓
N Claussen	n/a ³	n/a ³	n/a ³	✓	✓ ¹	✓ ¹	n/a	n/a	✓	✓	n/a	n/a
PMO Curle	✓	✓	✓	✓	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
MJ Lamberti	n/a ³	n/a ³	n/a ³	✓	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
MJ Leeming	✓	✓	✓	✓	✓	✓	n/a	n/a	✓	✓	✓	✓
Dr PM Maduna	✓	✓	✓	✓	n/a	n/a	n/a	n/a	n/a	n/a	✓	✓
JRD Modise	✓	✓	✓	✓	✗	✓	n/a ⁴	✓	n/a	n/a	n/a	n/a
DC Mpfu	✓	✗	✓	✓	n/a	n/a	n/a	n/a	✓	✗	n/a	n/a
DC Radley	✓	✓	✓	✓	✓ ²	✓ ²	✓ ¹	✓ ¹	✓	✓	n/a	n/a
PD Redshaw	✓	✓	✓	✓	✓ ¹	✗ ¹	n/a	n/a	✓	✓	n/a	n/a
Dr HA Serebro	✓	✗	✓	✓	n/a	n/a	n/a	n/a	✓	✓	n/a	n/a
CG Venter	✓	✓	✓	✓	✗ ¹	✗ ¹	n/a	n/a	✗	✗	n/a	n/a
PL Wilmot	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	n/a	n/a

✗ submitted apologies and was granted leave of absence in terms of the company's articles of association.

1 Attends by invitation and is not a member of the committee.

2 Has right of attendance but is not a member of the committee.

3 Messrs Claussen and Lamberti were appointed to the board on 12 October 2005.

4 Mr Modise was appointed as a member of the remuneration committee on 2 August 2005 and as the chairman of the remuneration committee effective 1 February 2006.

5 Mr RE Venter resigned as a member of the audit committee on 7 October 2005 and will attend future audit committee meetings by invitation.