

## Altron corporate governance report

### Introduction

From its humble beginnings as a small family owned electronics firm with five employees in 1965, Altron has grown to become Africa's leading diversified high-technology group. It now has an annual turnover exceeding R21 billion, maintains a strong balance sheet, and has more than 14 000 employees in over 150 companies and associates on five continents.

Notwithstanding this exponential growth, Altron has remained a family-centric business with a strong culture of kinship. In fact, the group's success is attributable, in large measure, to the commitment that has come from family ownership and the personal passion and business continuity this has brought. But our growth and success has required more than this: meticulous attention to detail, careful cost control, and prudent stewardship of our capital have all helped create value. At the same time, our flexibility and ability to innovate keep us at the leading edge of technology.

Despite strong family ties and our bias towards entrepreneurship and action, the Altron group ensures that it implements prudent and transparent corporate governance procedures, in line with leading practice both locally and abroad. We are also committed to ensuring that the interests of Altron's management are aligned with those of all its shareholders, and are acutely aware of the need to be accountable to and to communicate more fully with a far broader range of our stakeholders in society.

To this end, our corporate governance report now provides a more detailed account of both the financial and the range of non-financial risks to which the group is exposed. We have also embraced a number of management processes that reflect our commitment to an integrated view of environmental, social and economic considerations that affect, or are affected by, our businesses. Accordingly, since 2005 we have been augmenting and improving the information contained in our sustainability report, to better reflect the Global Reporting Initiative's recommendations on sustainability reporting, as well as our unique operating context in South Africa.

Our ongoing commitment and improvement in respect of triple-bottom-line issues is reflected in two broad-based measures of sustainability performance in South Africa. Since 2004, when Altron first qualified for the JSE's Social Responsibility Investment (SRI) Index, we have incrementally improved our performance and ranking in terms of our

communication to stakeholders on non-financial issues, and our endeavours to influence suppliers and contractors to improve their own non-financial performance. We are also pleased to have improved our ranking (from 33 to 28) and overall score in the second annual Accountability Rating, which assesses South African companies' sustainability practices across the dimensions of strategy, governance, performance management, stakeholder engagement and public disclosure. In 2007 Bytes, our wholly owned subsidiary was voted best annual report in its sector, acknowledging that company's strong management and reporting standards.

### Compliance

The requirement to uphold the principles of discipline, independence, responsibility, fairness, social responsibility, transparency and accountability of directors to all stakeholders is 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 superior levels of performance and return on shareholders' investment.
- ▶ Conforming to corporate governance standards, which can impose constraints on management.

Within these guidelines the board has provided entrepreneurial leadership to the company within a framework of prudent and effective controls which enables risk to be assessed and managed.

### Independent rating of compliance with King II

The board is satisfied that Altron has made every practical effort to comply with all material aspects of King II during the review period, and these are reviewed regularly to incorporate changes and developments in this field. Following the internal self-assessment conducted by Altron in 2006 as to its levels of compliance with corporate governance principles and standards, the company engaged Corporate Governance Accreditation (Pty) Limited (CGA) in 2007 to provide an independent corporate governance rating and accreditation of Altron and Bytes. This was successfully completed in 2007, resulting in Altron and Bytes becoming the first companies in South Africa to be independently accredited by CGA, and the only companies on the JSE to be independently rated.

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### Results of independent rating of Altron and Bytes

The CGA-led concept has now been accepted by the Institute of Directors. Further uptake will see the development of a governance index. CGA is a world-first, combining an internal tool with an external verification process, thus enabling a board and its office bearers to be fully informed of their responsibilities and duties. It also provides a transparent window to all shareholders and is a unique platform for full corporate governance accreditation.

All areas of governance are covered by the gap analysis including, board functions, composition, roles and duties; duties and responsibilities of executive and non-executive directors, chairmen and CEOs; board committee governance; risk management, internal and external audit; and the full spectrum of integrated sustainability issues including environmental, social responsibility, ethics, diversity, BBBEE and HIV/Aids issues.

Altron obtained a result of 79% placing it at the top end of the Silver Awards scale (between 65% and 80%) while Bytes achieved a result of 67% thereby also attaining Silver status.

Particular areas that the report highlighted as requiring attention were:

**Stakeholder relationships** – The disclosure of voting issues by institutional investors and their ability to influence corporate strategy.

**Integrated sustainability:** – In order of priority, the main area of weakness identified was that of issues relating to corporate ethics.

In response to the CGA process, Altron has run a check on all the items that were noted in the exception report. The two issues noted above are dealt with in the sustainability report included in this document (see pages 51 and 45 to 46 respectively). The company is satisfied that no material issues were identified, and those that were have, for the most part, been dealt with since the report. Altron will again be audited by CGA in June/July 2008 to ascertain to what extent it has improved upon its corporate governance structures and processes.

### Approach

#### Leadership

The board supports the long-term sustainability of corporate capital, balanced economic, social and environmental performance and due consideration of legitimate stakeholder involvement. The detailed responsibilities of the board, as set out in its charter (initially approved in April 2002 and revised and adopted by the board annually since February 2006), include the duty to:

- ▶ exercise objective, informed judgement on the business affairs of the group;
- ▶ 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 group;
- ▶ ensure Altron complies in all material respects with all relevant laws, regulations and codes of practice;
- ▶ review and evaluate business risks regularly and ensure comprehensive, appropriate internal controls are in place;
- ▶ define levels of authority, reserving specific powers for itself 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 block of persons has unfettered power; and
- ▶ identify and monitor non-financial aspects relevant to the company's business and ensure that the company acts responsibly towards stakeholders with a legitimate interest in its affairs.

#### Accountability

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

## Transparency

Full and timeous disclosure of information to stakeholders is prescribed by various policies governing communication and conduct with stakeholders. During 2006 a formal disclosure policy was approved by the Altron board (and subsequently updated in February 2008), which regulates the nature, content and timing of all disclosures of price-sensitive and non-price-sensitive information to the investment community and stakeholders.

## Board structure and related matters

The board's charter sets out its role, composition, materiality levels, delegation of authority, proceedings at meetings, director induction as well as composition and role of board committees. The board charter is reviewed annually to ensure its continued compliance with local and international best practices and changes to the South African regulatory environment.

### 1. Composition

Consistent with the company's board charter, Altron has a unitary board, constituted to both lead and control the company. Of the 14 serving directors, six are independent non-executive directors (ie directors that are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement), one is non-executive and seven are executive directors. During the period under review Ms Barbara Masekela was appointed as an independent non-executive director to the Altron board and Ms Diane Radley resigned as chief financial officer to take up the position of Group Finance Director of Old Mutual SA (Pty) Limited.

### 2. 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, founder and former chief executive of the group.

The chairman presides over meetings of the board, guiding the integrity and effectiveness of the board governance process. This includes ensuring that no individual dominates the discussion, that relevant discussion takes place, that the opinions of all directors relevant to the subject under discussion are solicited and freely expressed and that board discussions lead to appropriate decisions.

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 involvement by the chairman 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. The chairman's duties are governed by a formal board-approved mandate regulating the terms of reference of his office, and this is reviewed from time to time when appropriate.

Operational management of the group is the responsibility of the chief executive, Robert Venter. His responsibilities include, among others, developing and recommending to the board a long-term strategy and vision for the organisation that will generate satisfactory stakeholder value, developing and recommending to the board annual business plans and budgets that support the organisation's long-term strategy, and managing the affairs of the organisation in accordance with its values and objectives, as well as the general policies and specific decisions of the board.

### 3. 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 a wide range 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. Letters of appointment confirm the terms of their service. Their fees are independent of the group's financial performance and they receive no share options or bonuses.

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 the articles of association. In this regard the Altron nomination committee is active in annually assessing the performance of those directors standing for re-election and makes formal recommendations to the board and shareholders in this regard.

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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.

### 4. Effectiveness of the board

The board evaluates its own effectiveness at least every two years or more often if required by board changes, and underwent a self-evaluation exercise in 2007. The self-evaluation, completed by all 14 board members, examined six areas, the findings of which can be summarised as follows:

- ▶ **Strategy and planning** – generally believed to be clear, understandable and appropriate for the markets in which the group operates. Strategic planning has improved with more interaction between executive and non-executive directors. One suggestion was to focus more on direction and less on 'financials', and for the chief executive's report to review key strategic issues.
- ▶ **Board structure and role** – generally satisfied with spread of talent, effective performance and involvement in major business decisions. While delineation of roles was found to be clear, a recommendation for consideration is the possible reduction of executive representation on the main board, while increasing the non-executive component, preferably with independent non-executive directors. Further recommendations included appointing additional black directors to the board and ensuring a well-articulated succession planning policy for the chairman and the remaining executive directors.
- ▶ **Meeting processes** – found to be excellent, effective and professional. Of concern is the overload of statutory and governance issues, resulting in less time available for business.
- ▶ **Performance monitoring** – generally believed that financial, business and compliance systems are in place and regularly monitored. There is a clear understanding of Altron's business risk, although an annual debate at board level around risk as distinct from at a risk management committee level would be valuable.

▶ **Board and director responsibilities** – members interact highly effectively, board acts in a cohesive and responsible manner. Policies are regularly reviewed and updated. The chief executive is articulate, attentive and responsive, while the other board members are competent and available when needed for advice.

▶ **Board culture and relationships** – there is a sense of collegiality, minority views are respected and senior management shows sufficient courtesy to the board.

Similar to the board evaluation, Altron's board conducted a committee evaluation (an exercise over and above the self-evaluation exercises conducted by each of the committees earlier in the year). Responses indicated that the various committees function effectively with regard to competency, teamwork, governance and reporting. Areas of weakness included the paucity of independent non-executive directors and black female appointees. Also of concern is the Altron audit committee's oversight of the subholding companies' (both public and private) audit committees which can affect the Altron financial performance. As a result of the recent enactment of the Corporate Laws Amendment Act, the Altron audit committee resolved to assume the role and responsibilities of the Bytes and Powertech audit committees with the latter companies establishing financial review and risk management committees which will report in at both the subholding company and at the Altron audit committee level.

The areas of non-compliance identified by the board are receiving attention and where appropriate have been remedied.

### 5. 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 and non-executive, may liaise with the group company secretary on agenda items for board meetings. Where appropriate, the directors may also consult with independent professionals and advisors, at Altron's expense.

The group company secretary provides counsel and guidance to the board, individually and collectively, on their powers and duties. He is also responsible for the development of director training. All new directors are appropriately inducted to Altron by the group company secretary and sponsor, which includes a briefing on their fiduciary and statutory duties (including without limitation the JSE Listings Requirements) and responsibilities as well as two- to three-day induction visits to group operations around South Africa. In addition, ongoing support and resources are provided to directors in order to enable them to extend and refresh their skills, knowledge and understanding of the group. Professional development and training is provided through regular updates on changes and proposed changes in laws and regulations affecting the group or its businesses and professional and skills training. During 2007, Nigel Payne a

director of the JSE and several other listed entities presented a seminar to the group's directors entitled "Leisurenet – lessons to be learnt".

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

#### 6. Board meetings

A minimum of four board meetings and two strategic sessions 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. The accompanying table details the attendance by each director at board and strategic meetings during the year under review:

#### Attendance at meetings

Director	Board				Strategy	
	2007			2008	2007	
	May	Aug	Oct	Feb	Aug	Nov
Dr WP Venter (chairman)	✓	✓	✓	✓	— <sup>3</sup>	✓
RE Venter	✓	✓	✓	✓	✓	✓
MC Berzack	✓	✓	✗	✓	— <sup>3</sup>	✓
N Claussen	✓	✓	✓	✓	✓	✓
PMO Curle	✓	✓	✓	✓	✓	✓
MJ Lamberti	✓	✓	✓	✗	— <sup>3</sup>	✓
MJ Leeming	✓	✓	✓	✓	— <sup>3</sup>	✓
Dr PM Maduna	✓	✓	✓	✓	— <sup>3</sup>	✓
BJM Masekela	— <sup>1</sup>	— <sup>1</sup>	— <sup>1</sup>	✓	— <sup>1</sup>	— <sup>1</sup>
JRD Modise	✓	✓ <sup>2</sup>	✓	✓	— <sup>3</sup>	✓
PD Redshaw	✓	✓	✓	✓	✓	✓
Dr HA Serebro	✓	✓	✓	✓	— <sup>3</sup>	✗
CG Venter	✗	✓	✗	✓	✓	✓
PL Wilmot	✓	✓	✓	✓	— <sup>3</sup>	✓

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

<sup>1</sup> Appointed to the Altron board on 1 February 2008.

<sup>2</sup> Participated by way of teleconference.

<sup>3</sup> This strategy session excludes the non-executive director component of the board including the office of the chairman.

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### 7. 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 May 2007 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. The chairmen of the committees are, in conjunction with the board, elected by the members of each committee and hold office for not more than five consecutive years, unless sound reasons cause the nomination committee and the board to determine otherwise.

#### 7.1 Executive committee

- ▶ **Members** – Robert Venter (chairman), Craig Venter, David Redshaw, Norbert Claussen, Peter Curle and Onkgopotse Tabane. The chief financial officer is also a member of this committee, but this position is currently vacant. The executive structure appears on page 10 to 11.
- ▶ **Composition and proceedings** – the committee meets monthly with additional meetings convened as and when necessary.
- ▶ **Role** – 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 is reviewed from time to time.

#### 7.2 Audit committee

- ▶ **Members** – Peter Wilmot (chairman), Mark Lamberti, Mike Leeming and Jacob Modise.
- ▶ **Composition and proceedings** – both the chief financial officer and Robert Venter (chief executive) are required to attend committee meetings. The committee meets periodically with the group's external and internal auditors and Altron's executive management. It also determines and carefully monitors the use of the external auditors for non-audit related services, and is guided by a formal policy that precludes the external auditors from providing services which would impair audit independence. Prohibited services include:

- performing any internal audit or internal audit outsourcing services for Altron or any of its relevant subsidiaries;
- performing any valuations on any business assets of Altron, or any of its relevant subsidiaries, for which the external auditors will be required to subsequently issue an audit opinion;
- the provision of corporate finance advice, assistance or services to Altron or any of its relevant subsidiaries;
- providing any legal or information technology (design or implementation) consulting services to Altron or any of its relevant subsidiaries; and
- conducting any due diligence exercises for and on behalf of Altron or any of Altron's relevant subsidiaries which utilise Altron's external auditors for audit-related services.

The permitted and/or qualified non-audit-related services which the external auditors are permitted to render to Altron include:

- tax compliance services in relation to and for and on behalf of Altron;
- assurance-related work, but excluding implementation consulting work which results in an impairment of the external auditors' independence, and
- opinion work not relating to or associated with any of the prohibited services referred to above;

provided, however, that the Altron audit committee must preapprove any proposed contract with the external auditors for the provision of such permitted and/or qualified non-audit related services to Altron and provided further that these permitted and/or qualified non-audit related services do not exceed 10% of the total Altron group audit fee agreed by the Altron audit committee for the financial year in question.

Services rendered by the external auditors during the period under review, and preapproved by the audit committee (within the financial parameters prescribed by the committee), comprised mainly compliance and other assurance-based engagements, including opinion work not relating to, or associated with, any of the prohibited services referred to above.

- ▶ **Role** – the committee has written terms of reference and its responsibilities include among others:
  - considering and nominating to the board, the appointment and/or termination of the external auditors, including their independence and objectivity;

- determining the audit fee of the external auditors;
- considering and setting mandatory term limits on the period the lead audit partner of the external auditors may serve the company;
- confirming internal audit's charter and audit plan;
- determining with the external auditors the nature and scope of the audit and ensuring coordination 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; and
- reviewing interim 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 to other users of financial information
- discussing any problems and reservations arising from the year end audit and any related matters that the external auditors may wish to discuss.

#### Self-assessment exercise

Following the self-assessment exercise conducted in 2007, the recommendations whereof were reported on in the 2007 annual report, the audit committee has:

- ▶ convened a third audit committee meeting annually to update members on changes in accounting standards and other emerging issues such as, among others, the audit committee and auditor requirements prescribed in the Corporate Laws Amendment Act and the proposed Companies Bill;
- ▶ endorsed management's decision to appoint Deloitte Tip-Offs Anonymous – a dedicated and independent whistleblowing programme, which has proved successful to date;
- ▶ reviewed the proposed amended Altron group code of conduct, as well as satisfied itself that executive management regularly monitors compliance with the code;
- ▶ endorsed management's decision to implement Project Everest, which has had the effect of measuring the group's financial performance in real time and against budgets; and

- ▶ made recommendations to Altron's subholding companies' audit committees regarding their composition with specific reference to the proposals contained in the Corporate Laws Amendment Act.

External auditors attend meetings by invitation. At the year-end audit committee meeting the chairman ensures that senior management and the external auditors are able to report back to the committee chairman on the audit process both candidly and independently of each other.

Three meetings are scheduled annually, with special meetings called as required. The committee met three times during the year under review.

#### Attendance at meetings

Members (and invitees)	Audit		
	2007		2008
	May	Oct	Feb
PL Wilmot (chairman)	✓	✓	✓
MJ Lamberti	✗	✓	✓
MJ Leeming	✓	✓	✓
JRD Modise	✓	✓	✗
N Claussen	✓ <sup>1</sup>	✓ <sup>1</sup>	✓ <sup>1</sup>
PD Redshaw	✗ <sup>1</sup>	✗ <sup>1</sup>	✗ <sup>1</sup>
CG Venter	✗ <sup>1</sup>	✗ <sup>1</sup>	✓ <sup>1</sup>
RE Venter	✓ <sup>1</sup>	✓ <sup>1</sup>	✓ <sup>1</sup>

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

<sup>1</sup> Attends by invitation and is not a member of the audit committee.

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 accountable to the chief financial officer on day-to-day matters.

The external auditors and the head of internal audit attend Altron's annual general meeting to answer any queries raised by stakeholders.

#### Reappointment of independent auditors

At an Altron audit committee meeting held on 28 February 2008, the committee considered the independence of the external auditors KPMG Inc in accordance with section 270A of the Corporate Laws Amendment Act. In assessing the independence of the external auditors, the audit committee satisfied itself that KPMG Inc:

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- ▶ does not hold a financial interest (either directly or indirectly) in Altron;
- ▶ does not hold a position, either directly, or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of Altron;
- ▶ is not economically dependent on Altron, having specific regard to the quantum of the audit fees paid by Altron and its subholding companies to KPMG Inc during the period under review in relation to its total fee base;
- ▶ does not provide consulting or non-audit services to Altron or its subholding companies which fall outside of the permitted or qualified non-audit-related services as specified in the policy for the use of the external auditors for non-audit-related services and which could compromise the external auditors' independence (see page 119 of the financial statements); and
- ▶ including the individual registered auditors who undertake the audit, do not have personal or business relationships of immediate family, close relatives, partners, either directly or indirectly, with Altron and its subholding companies.

Accordingly, the Altron audit committee is satisfied that KPMG Inc is independent as contemplated by South African independence laws and the applicable rules of the International Federation of Accountants (IFAC), and nominated the reappointment of KPMG Inc as registered auditors for the 2008/9 financial year. On 29 February 2008, the Altron board, subject to shareholder approval, re-appointed KPMG Inc and Mr MCA Hoffman, as the independent registered audit firm and individual registered auditor of Altron respectively.

### 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 119 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.

An internal fraud hotline has enabled Altron associates and employees to anonymously report suspected irregularities and has proved an effective tool over the last four years. Throughout the group, reported fraud remained at six incidents over the reporting period, but representing a threefold increase in net loss (net of recovery) to nearly R1.2 million compared to the previous year. Incidents of theft reduced from 77 to 59, but the net loss almost doubled to R3 million for the year compared to the 2007 financial year. An aggressive drive to reinforce our code of conduct and the ethics of the group has been launched. In addition, from 1 March 2007, the Deloitte Tip-Offs Anonymous independent hotline was introduced, which further strengthened the group's internal controls.

Altron tracks the number of crimes committed against the group by outside parties, including hijackings and break-ins. During the year under review, hijackings increased from one in the previous year to seven, break-ins increased from four to six, while armed robberies increased from seven incidents in the previous year to 11. The total net loss from all incidents (internal and external) doubled to R5 million compared to the previous year.

As reported previously, PricewaterhouseCoopers had in 2005 performed an independent assessment of the effectiveness of the Altron internal audit department, finding it to comply with the Standards for the Professional Practice of Internal Auditing as issued by the Institute of Internal Auditors and highly commending it on its professionalism.

### 7.3 Remuneration committee

- ▶ **Members** – Jacob Modise (chairman), Myron Berzack, Peter Wilmot, Mark Lamberti and Dr Bill Venter.
- ▶ **Composition and proceedings** – the committee comprises a majority of independent non-executive directors. Robert Venter (chief executive) has right of attendance at committee meetings and the 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 year 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 are inline with the Altron remuneration philosophy.

### Self-assessment exercise

During 2007, the committee conducted a self-assessment exercise to review its functioning and effectiveness. The committee is satisfied that it has provided adequate disclosure to shareholders, determined remuneration levels that are sufficient to attract, motivate and retain senior executives of Altron, and that performance-related elements of remuneration constitute a large proportion of total remuneration packages. Areas for improvement identified through the self-evaluation included ongoing training on remuneration best practices and trends to assist the committee in dealing with and negotiating increasingly complex, performance-driven reward packages. The committee will also continue to address succession planning throughout the group in the next financial year.

In making improvements, the committee has:

- ▶ satisfied itself that the remuneration packages of its senior executives are market related. Several independent consultants are used to benchmark these packages;
- ▶ confirmed that the levels of funding of the Altron Group Pension Fund and Altron Medical Aid are adequate and appropriate;
- ▶ agreed that non-executive directors should not be awarded share options as this could compromise their independence vis-à-vis the company;
- ▶ reconsidered the methodology of payment of non-executive directors' fees by looking at introducing an attendance fee component as opposed to solely a retainer; and
- ▶ reconstituted the committee so that a majority of its members are now independent non-executive directors.

### Attendance at meetings

	Remuneration	
	2007	2008
	May	Feb
<b>Members (and invitees)</b>		
JRD Modise (chairman)	✓	✓
MC Berzack	✓	✓
MJ Lamberti	— <sup>2</sup>	✓
Dr WP Venter	✓	✓
PL Wilmot	✓	✓
RE Venter	✓ <sup>1</sup>	✓ <sup>1</sup>

<sup>1</sup>Has right of attendance but is not a member of the audit committee.

<sup>2</sup>Appointed to the Altron remuneration committee on 8 August 2007.

For further details on the remuneration of Altron's executives see the remuneration report on page 108.

### 7.4 Risk management committee

- ▶ **Members** – Mike Leeming (chairman), Norbert Claussen, David Redshaw, Dr Harold Serebro, Onkgopotse Tabane, Craig Venter, Robert Venter and Peter Wilmot.
- ▶ **Composition and proceedings** – the committee has two scheduled meetings each year and met twice during the year under review.
- ▶ **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 a nine-point scale: from 'catastrophic' to 'negligible' in relation to the impact and from 'negligible' to 'confidently expected' for probability. 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 then decide on its acceptability. 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.

### Self-evaluation exercise

The risk management committee conducted a self-evaluation exercise during 2007. The committee believes that its composition, frequency of meetings and authority are adequate and that it operates in an atmosphere of openness and trust. It identified increased monitoring of environmental risks and opportunities, as well as the formulation of a group policy regarding health and safety, as areas to be addressed going forward. Its recommendation to establish an independent fraud hotline has been addressed through the implementation of the Deloitte Tip-Offs Anonymous fraud hotline.

Areas addressed consequent to the evaluation, included:

- ▶ increased the number of independent assurers the group engages with to verify risks ie:
  - MS Alexander & Associates and PricewaterhouseCoopers – environmental
  - CGA – Corporate Governance
  - Aurum Institute for Health Research – HIV/Aids
  - Empowerdex – BBBEE

## Altron corporate governance report *continued*

- ▶ bolstered the internal audit department to now include production and environmental audits, as well as statutory audits on the secretarial records;
- ▶ improved and drafted guidelines on business and IT continuity including where the responsibilities lie;
- ▶ established a reputable independent fraud hotline with Deloitte; and
- ▶ adequately reported to stakeholders on the group's material risks as contained in the 2007 Altron annual report.

### Attendance at meetings

Members (and invitees)	Risk	
	2007	
	April	Oct
MJ Leeming (chairman)	✓	✓
PL Wilmot	✓	✓
N Claussen	✓	✓
OJJ Tabane	— <sup>1</sup>	— <sup>1</sup>
PD Redshaw	✓	✗
Dr HA Serebro	✓	✓
CG Venter	✓	✓
RE Venter	✓	✗

\*Submitted apologies and was granted a leave of absence in terms of the company's articles of association.

<sup>1</sup> Appointment to the risk management committee on 1 March 2008.

### Material risks and opportunities facing the group

Altron defines material risks and opportunities as those that have the potential to impact on shareholder value. The major consolidated risks identified by the board during the review period included:

- ▶ Eskom's electricity supply constraints and load shedding;
- ▶ human capital ie skills shortages in certain areas of the business;
- ▶ performance of subholding companies and future growth opportunities;
- ▶ RSA dependency versus offshore exposure;
- ▶ management structures;
- ▶ progress in relation to broad-based black economic empowerment;
- ▶ dependence on Powertech/Aberdare Cables;
- ▶ capacity constraints;
- ▶ security of supply of key raw materials; and
- ▶ political risk.

Several of the risks identified in the list above are described in detail in the sustainability report, included within the pages of this document. Those not dealt with in the sustainability report are summarised hereunder:

### Eskom's electricity supply constraints

The group has been preparing for standby power in many of its businesses over the last few years and the necessary alternative power supplies have, for the most part, been installed. At the same time the power crisis has created opportunities and resulted in demand from businesses for standby power solutions. In this regard the newly acquired IST business in Powertech and Powertech Batteries, as well as the newly established Powertech Energy Solutions business, have played a major role in providing alternative power solutions with meaningful orders received to date.

This risk is dealt with more comprehensively in the sustainability report.

### Human capital

The exodus and shortage of key skills within the South African economy has necessitated the group initiating several projects to attract, motivate and retain key skills. Again, this risk is dealt with more comprehensively in the sustainability report.

### Performance of sub-holding companies

In recent years, the Altron group has been growing off an extremely high profit base which has placed pressure on the group going forward in terms of growing its businesses organically. As a result thereof, this has necessitated the group considering strategic acquisition opportunities in order to sustain the high profit base. Key acquisitions concluded recently include among others a controlling interest in three subsidiaries of the Sameer ICT Group within Altech, IST Group (Pty) Limited and ABB's 50% stake in Powertech Transformers within Powertech and several acquisitions within the Bytes group.

### RSA dependency versus offshore exposure

The group has mitigated against its high dependency on the South African economy by pursuing a policy of offshore expansion into niche sectors where the group has extensive experience. To this end, Bytes and Altech have concluded a number of offshore acquisitions, while the group's export performance is driven by a dedicated export council.

The group has set a target of generating 25% of its revenue offshore, either through exports or its international operations. During 2007, offshore revenue accounted for approximately 23% of the group's total revenue, which translated to an operating profit (excluding exports) of approximately R211 million (11%).

#### Management structures

One of the risks posed to the group is the lack of depth of resources at the senior management level. Aside from placing pressure on the incumbents, the risk to the group is the probability of the incumbent failing to identify business, strategic or financial risks as a result of not having two sets of eyes to cast over the respective area of responsibility.

The group is mindful of this risk and the succession planning policy has been designed around addressing this facet of the business.

#### Broad-based black economic empowerment

The need to comply with among others the dti's Codes of Good Practice has become a business and economic imperative for conducting business in South Africa. This section is dealt with more comprehensively in the accompanying sustainability report.

#### Dependence on Powertech

During the past two financial years, the Powertech group has been responsible for contributing in excess of approximately 50% of Altron's profits. The board has identified this as being a risk to the sustainability of the group, given among others the cyclical nature of businesses within particular sectors. This risk has to some extent been mitigated against by concluding certain key acquisitions throughout the group during the period under review. These have included inter alia the acquisition by Altech of a controlling interest in three subsidiaries of the Sameer ICT Group in Kenya and the acquisition by Powertech of the IST Group (Pty) Limited and ABB's 50% shareholding in Powertech Transformers.

#### Capacity constraints

With risk comes opportunities and the Altron group has been instrumental in capitalising on opportunities in depressed and underdeveloped markets. However, this has placed pressure on the group to deliver products and services in real time and according to stringent deadlines. In turn this has translated

to capacity constraints in being able to deliver the end product or services to the customer within the specified deadlines. The group has combated this risk by investing heavily in increasing capacity in recent years, particularly within its manufacturing operations, including developing and retaining key skills as referred to under the section entitled human capital above.

#### Security of supply of raw materials

This risk is particularly relevant to the Powertech group of companies. Powertech mitigates this risk by developing relationships with key suppliers, identifying alternative sources of supply as well as continuously improving its supply chain management, logistics and distribution network. Powertech has also ensured its costs are controlled in its manufacturing processes to enable it to remain competitive.

#### Political risk

South Africa is currently in a period of political transition. The uncertainty which inevitably accompanies change is in itself an operational risk for the group's businesses, particularly with regard to relationships with offshore principals and suppliers, as well as general confidence in the country's economy.

#### 7.5 Nomination committee

► **Members** – Dr Penuell Maduna (chairman), Myron Berzack, Mike Leeming and Dr Bill Venter.

► **Composition and proceedings** – The committee comprises a majority of non-executive directors and was established during the 2004/5 reporting period. Robert Venter (chief executive) has right of attendance at committee meetings. There is no formal meeting schedule for this committee, which meets as and when required. The committee met once during the year under review.

The appointment of directors is a transparent and formal procedure governed by the nomination committee's mandate and terms of reference as well as 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, demographics and experience in relevant sectors are also considered.

## Altron corporate governance report *continued*

► **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 has been finalised and is being implemented throughout the group. The committee also makes recommendations to the board on the suitability of directors due to retire by rotation being put forward for re-election at the annual general meeting.

### Attendance at meetings

Members (and invitees)	Nomination
	2007
	August
Dr PM Maduna (chairman)	✓
MC Berzack	✓
MJ Leeming	✓
Dr WP Venter	✓
RE Venter	✓ <sup>1</sup>

<sup>1</sup>Has right of attendance but is not a member of the nomination committee.

### 7.6 Transformation committee

- **Members** – this is a subcommittee of the Altron executive committee. Transformation champions representing each subholding group sit on the Altron transformation committee.
- **Composition and proceedings** – the transformation committee was established five years ago and has continued to drive economic transformation and broad-based black economic empowerment across the group.
- **Role** – following the successful transition from Vision 2010 to Vision 2012, whereby the blueprint for transformation within Altron was updated to include the new dti Codes of Good Practice (the Codes) into the company's strategic transformation objectives, the committee's mandate has been extended to develop a practical implementation plan and guidance manuals to ensure uniform application of the empowerment vision across the group.

Despite the ongoing uncertainty at government level between the validity of the industry sector charters and the Codes, the committee nonetheless is engaged in several projects, namely:

- auditing the entire group's operations to determine

whether or not they comply with the Codes including suggesting corrective actions;

- aligning the Altron Transformation Vision 2012 document with the Codes as well as with relevant sectoral charters; and
  - determining a strategy and road map for future compliance by the group with the Codes and other broad-based black economic empowerment legislation.
- While the company is guided by this legislation, it has set itself its own internal strategic transformation goals, which it believes best serve the future sustainability of the Altron group.

### CORPORATE CODE OF CONDUCT

The Altron code of conduct is endorsed and guided by the boards of Altron, Altech, Bytes and Powertech and commits all employees to the highest standards of behaviour. The code sets out the expected behaviour of all employees in their dealings with the group's stakeholders. A detailed code of conduct forms part of the Altron group policy manual and outlines Altron's ethos. All employees are required to maintain the highest ethical standards in ensuring that the group's business practices are conducted in a manner which in all reasonable circumstances is beyond reproach.

This code was reviewed by the Altron audit committee in February 2008 and was amended to bring the same in line with best business and corporate governance practices.

### ETHICS CAMPAIGN

During 2006/7 Altron launched a prominent group-wide campaign designed to re-emphasise and facilitate understanding of the ethical values that underpin the Altron code of conduct. The campaign emphasised that each and every employee has a responsibility to report any unethical behaviour of which they become aware, regardless of who is perpetrating it. In order to protect individuals, and with the agreement of the Altron audit committee, Altron contracted Deloitte Tip-Offs Anonymous to provide an independent hotline through which anyone in the group can report unethical behaviour.

With the full and visible support of the Altron executive committee, the corporate communications team rolled out full details of this service through poster campaigns, brochures

and training sessions. The reporting line is an important tool in both monitoring and stamping out unethical behaviour in the group and has been set up in line with current best practices in this field.

### COMMUNICATING WITH SHAREHOLDERS AND INVESTORS

The importance of clear and direct communication with shareholders and analysts is crucial as we enter a drive to sustain our growth, in raising their understanding of the group's strategy, operational and financial performance, management and prospects.

Altron has a dedicated programme for facilitating regular communication between the executive management team and a wide range of institutions and investors. This includes among others providing timeous, accurate announcements and circulars to shareholders in accordance with the JSE Listings Requirements. In addition, regular contact with domestic and international institutional shareholders and analysts is maintained through investor road shows, presentations and liaison with major shareholders. Altron's proactive investor relations programme furthermore includes the following activities over the financial year:

- ▶ Annual site visits to group companies where presentations are delivered to analysts and fund managers by managing directors of operations throughout the group. In 2007 an analyst presentation was held at Bytes in Midrand and visits were undertaken to other group subsidiaries.
- ▶ Our management team hosts, together with our sponsor Investec, bi-annual presentations in Cape Town and Johannesburg to afford fund managers an opportunity to interact with management.
- ▶ During the year the management team undertakes UK roadshows to present to potential international investors.
- ▶ Our chief executive and chief financial officer also attend various conferences, both locally and in the UK, where they address or interact with potential investors.
- ▶ In addition to our investor relations website, we ensure ongoing communication regarding pertinent performance through regular e-mail communication.
- ▶ Regular one on one meetings are held with analysts by our chief executive and chief financial officer in order to assist analysts with strategic and financial aspects of the business.

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 which includes a personal invitation from the chairman to each shareholder in the annual report to attend the annual general meeting.

During the period under review, Altron engaged an independent firm to conduct an analyst poll on the company. Analysts were asked to rate Altron in terms of its quality of management, leadership, strategy, earnings growth potential, sustainability of earnings, liquidity, dividend policy, cost controls, corporate governance and investor communications.

A detailed account of the results of this research is contained in the Stakeholder Engagement section on page 49.

### SHARE DEALINGS

Altron and its subholdings have approved written policies on directors' dealings in securities. These require all relevant directors who wish to deal in Altron or its subholdings' 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 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, special electronic or printed notices advise staff of imminent closed periods. During these periods, the group's directors (including associates), officers and employees may not deal in the securities of Altron or Altech as the case may be. Additional closed periods are enforced, when required, in terms of corporate activities.