

Shareholders

Relationship to the annual report

The annual report, of which this sustainability report is a subsection, reports on the company's performance to shareholders and investors, while offering an appraisal of the company's future ability to continue generating returns on shareholders' equity. The responsible stewardship of the company is dealt with in the corporate governance report (see pages 95 to 107). Subject areas listed in that report include:

- ▶ compliance with King II;
- ▶ the board – leadership, role, transparency, effectiveness and meetings;
- ▶ strategy and policy over operational activities of the Altron group (executive committee);
- ▶ responsible stewardship of the company's finances (audit committee);
- ▶ safeguarding assets, preventing and detecting error and fraud, reporting controls (audit committee);
- ▶ risk management (risk management committee);
- ▶ fair remuneration of the Altron group's directors and senior executives (remuneration committee);
- ▶ appointments to the board and succession planning (nomination committee);
- ▶ planning and guidance with respect to transformation (transformation committee);
- ▶ code of conduct (audit committee);
- ▶ ethics (corporate governance);
- ▶ communication with shareholders and investors; and
- ▶ share dealings.

Engagement with shareholders

Certain forms of communication with shareholders, investors and analysts offer opportunities for two-way interaction – the essence of engagement is reported in the corporate governance report on page 107.

Independent report on investment analyst poll

Aside from these forms of proactive engagement, Altron has also sought to obtain structured feedback from analysts – representing the majority of shares outside of the Venter family holding – on its performance. To this end, Altron engaged an independent firm (College Hill) to conduct an analyst poll on the company during 2007, following the release of the company's annual results. 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. The comments were non-attributable to encourage frank comment.

Issues within this section

- ▶ Altron's treatment of minority investors
- ▶ Transformation at ownership level



Robert Venter, CE of Altron presenting to the investor community.

Summary of analyst feedback to investor-related questions

Issue	Analyst perceptions	Company response
Impression of the annual results for 2006/2007	Altron results were good, with a strong contribution from Powertech. Results impressed analysts and were ahead of expectations.	See Altron chief executive's review, pages 18 to 19.
Key investor issues facing the company	Surplus cash on the Altech/Altron balance sheet	Altech crowned the year with the acquisition of a controlling interest in three subsidiaries of Kenya's Sameer ICT Group for approximately R650 million, funded entirely from the surplus cash in hand. Powertech concluded the acquisition of the 50% of Powertech Transformers it did not own from ABB for R320 million.
	The multiple entry points to the Altron group	Altron made an offer to buy out minorities at both Bytes and Altech. Bytes' offer accepted, Altech's rejected.
	The maturation of the Altech Autopage Cellular market placing pressure on margins	The company has significantly leveraged its national sales footprint during the year by adding a number of third-party call centres and distributors for data products.
	The impact of the copper price on margins when the copper price declines	This risk is mitigated by contract clauses with major customers which adjust prices for metal and other input fluctuations.
Execution risks to deliver on strategy	Powertech not having sufficient capacity to meet rising demand	Acquisition of IST Group for R504 million. Capacity expansion in Powertech operations are significant and ongoing (see 2008 year end presentation on website (www.altron.co.za) and Powertech operational review on pages 34 to 37.
The capital structure of the company	Discomfort with the dual share structure and the different values attached to these instruments because of different voting rights, raising concerns that minorities may be prejudiced in the future. Merging Altron and Altech was mooted as an option to simplify the Altron group structure and bring surplus cash to the centre to be dealt with more directly.	Minority rights – see discussion further in this section. Group structure – see attempted buyout of minorities above.



Shareholders *continued*

Summary of analyst feedback to investor-related questions *(continued)*

Issue	Analyst perceptions	Company response
Family control	The control of the Venter family is generally regarded as value-enhancing with particular reference to their long-term investment focus and conservative capital management style, though cash build-up at Altech was regarded as an urgent matter to resolve.	See discussion supporting Altron's sustainable growth strategy in the CE's review, page 24. Key investor issues – see subsection above.
Impressions of management and disclosure	Altron's commitment to thorough disclosure and dynamic, open and transparent investor relations is complimented and appreciated. There are no material disclosure issues. Altron management enjoys the respect and confidence of the market.	Altron will continue its commitment to positively engage with shareholders.
	Certain sectors of the investor community criticised Altech's management for not addressing the surplus cash issue in a satisfactory manner.	The surplus cash issue has been partially addressed (see above). Communication is being addressed in this regard.
Transformation issues	Some analysts believe structuring BBBEE at the operating level is more cumbersome and even convoluted compared to a single entry at the Altron level.	Developing anchor BBBEE partners at Altech, Bytes and Powertech is considered to be more enhancing given the diverse spread of products across the Altron group coupled with customer preference to have empowerment at the operating company level.

Corporate Governance Accreditation

CGA provides a formal certification of conformance with the good corporate governance practices as recommended by King II and the Code and Guidelines published by the King Committee. The independent certification provided by CGA validates the self-evaluation score achieved by the company utilising a software questionnaire that measures the implementation of the King II Codes and Guidelines.

Overall, Altron scored exceptionally high, being placed in the Silver class at 79%. Two general areas were identified for attention:

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

- Integrated sustainability – issues relating to corporate ethics.

Altron's response to the issue of corporate ethics is detailed both in the corporate governance report (see page 106), as well as within the sustainability section of this report (see page 46). Altron's response to the treatment of minority investors is dealt with hereunder.

Material issue

Altron's treatment of minority investors

Altron is aware of the concerns of minority shareholders. These concerns arise mainly as a result of the company being a business that is largely family owned and are thus systemic. Nevertheless, we believe the company has shown good faith by its actions and



Continued commitment from ABB

ABB has confirmed its continued commitment to the African market and has signed a long-term technology agreement with Powertech to support the realignment to promote transformation. This will allow the transformer company to maintain its leadership position through full access to ABB's leading technology for power transformers ranging from 20 MVA to 795 MVA. Powertech Transformers is the only transformer company that manufactures almost the entire range of power transformers in sub-Saharan Africa.



governance policies to invite the influence of minority shareholders on its material affairs.

Taking the subissues in turn:

► **Disclosure of voting by institutional investors**

– While this is not a legal requirement in South Africa (as opposed to the requirements of the LSE), we do in all of our minutes of general meetings, as well as in the AGM minutes, disclose how shareholders voted in respect of each resolution. These minutes are available to shareholders at any time. We do not, however, publish on SENS how each specific institution voted in respect of resolutions.

► **The ability of minority shareholders to influence corporate strategy**

– The failed scheme of arrangement to acquire the outstanding shares held by minorities in Altech illustrates Altron's approach to its engagement with all its stakeholders. Altron took the decision not to vote its shareholding (in which the family has a majority interest) in respect of the Altech offer, despite there being no legal impediment to doing so. Minority shareholders were able to exercise their rights and managed to block the scheme, thereby influencing Altron's corporate strategy. On the other hand, Bytes shareholders voted in favour of Altron's proposal. Bytes delisted in January 2008 and became a 100%-owned subsidiary of Altron.

Altron also took steps to ensure parties with vested interests recused themselves from making decisions on behalf of minority shareholders in respect of both schemes. Altech and Bytes formed board sub-committees consisting only of independent directors and the respective company chief executive officers (CEOs). These directors were advised by their respective financial advisors and took their decisions on the Altron offer to their respective boards.

The company endeavours to engage large institutional minority shareholders prior to annual general meetings on resolutions that it proposes passing, in order to get feedback and comment. Any objections and material concerns made by these minority shareholders are also taken into consideration and efforts made to accommodate these wherever possible.

Material issue

Transformation at ownership level

ABB South Africa, part of the global power and automation group, and Powertech are keenly aware of and acknowledge South Africa's need for broad-based black economic empowerment at all levels of society. To facilitate the inclusion of an empowerment partner, ABB took the decision to sell its 50% stake in Powertech Transformers to Powertech. Powertech, in turn, has agreed to sell 25.1% to black economic empowerment investors. Discussions with BBBEE partners, already involved in Powertech companies, are progressing and a further announcement will be made as soon as these negotiations have been finalised. Unconditional approval has been received from the Competition Tribunal for the acquisition by Powertech of ABB's 50% of Powertech Transformers for R320 million, effective 1 April 2008.