

## Corporate governance report

### Introduction

Management accepts the rights of Altron's shareholders as the true owners of the company and understands its own role as trustees on behalf of the shareholders. Corporate governance provides guidance and oversight as the company seeks to find a balance between conformance with governance principles and superior levels of performance in terms of a sustainable return on shareholders' investments.

Following guidance from the 2002 King Report on Corporate Governance for South Africa (King II), the company has created an open environment for institutional activism and we actively manage and report on the non-financial aspects of the company's performance through the sustainability report. In 2008, Altron again qualified for the JSE's Social Responsibility Investment (SRI) Index.

### Engagement with shareholders and investors

In accordance with our commitment to ensure that the interests of Altron's management are aligned with those of all its shareholders, we manage a dedicated programme to engage with analysts, investors and individual shareholders. This includes, among others, providing timely, accurate announcements and circulars to shareholders in accordance with the JSE Listings Requirements.

When the company is not in a closed period, there is ongoing interaction between the executive management team and a wide range of institutional investors and analysts. These interactions take the form of one-on-one meetings held mostly on request by the institutional investors or the analysts. Twice a year the group's results are presented to the investor community in Johannesburg and in Cape Town. During the full-year and half-year presentations in 2008, these presentations were webcasted live and have since been stored on the website.

The Altron chief executive and chief financial officer also presented at a number of investor conferences during the year and have spent some time in the UK where various interested investors were met. Regular contact is maintained with our investor community who receive all the media releases and other relevant company publications.

Further initiatives during the year under review included a two-day workshop at Bytes Park in Midrand in February this year when analysts and key investors were invited to hear presentations from each of the group's major subsidiaries, as well as a visit to Old Mutual and the PIC in Cape Town to canvass their opinion on the proposed adoption of amended articles of association, and a new long-term incentive scheme for the group.

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 covered in the notice of meeting. Every effort is made to encourage attendance and participation, including a personal invitation from the chairman to each shareholder in the annual report to attend the annual general meeting.

Every year, Altron seeks to gain structured feedback from analysts regarding its performance and management of the business, and again engaged an independent firm (College Hill) to conduct an analyst poll on the company. This review rated 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. Altron will again be conducting an analyst perception audit in June/July this year after the release of the year-end results. We have mandated Brunswicks to conduct this year's audit.

#### Summary of 2008 analyst feedback to investor-related questions

Issue	Analyst perceptions	Company response
<b>The investment case</b>	<ul style="list-style-type: none"> <li>»» Generally bullish</li> <li>»» Need to dispose of Altech NamITech</li> </ul>	<ul style="list-style-type: none"> <li>»» Altech disposed of Altech NamITech SA to Gemalto with effect from 1 April 2009</li> </ul>
<b>Corporate structure</b>	<ul style="list-style-type: none"> <li>»» Take out Altech minorities</li> <li>»» Collapse 'N' shares into ordinary shares and create liquidity</li> <li>»» Sell Altech NamITech</li> </ul>	<ul style="list-style-type: none"> <li>»» It remains Altron's long-term plan to consider acquiring Altech's minorities</li> <li>»» Not envisaged in the medium to long term as the Venter family retain control of the Altron group through the ordinary shares. Liquidity is created by the 'N' shares</li> <li>»» Completed – see comments above</li> </ul>
<b>Growth prospects</b>	<ul style="list-style-type: none"> <li>»» Limited interest in Bytes</li> <li>»» Powertech seen as short-term growth driver</li> <li>»» Altech medium- to long-term growth driver</li> <li>»» Interim results will prove a barometer for future growth</li> <li>»» Call for an investor day</li> </ul>	<ul style="list-style-type: none"> <li>»» Bytes remains a key component of Altron's diversified portfolio of businesses and service offerings</li> <li>»» Powertech restructured to compete in the current demand environment. Continues to benefit from infrastructure-related projects in both the private and public sectors</li> <li>»» Altech continues to exploit broadband opportunities both locally and in East Africa</li> <li>»» Global financial crisis and declining commodity prices negatively impacted Altron's results for the full year, despite good interim results in 2008</li> <li>»» A two-day investor conference was held on 16 and 17 February 2009</li> </ul>
<b>Investor relations</b>	<ul style="list-style-type: none"> <li>»» More site visits required</li> <li>»» The need to meet divisional managers</li> <li>»» Altech needs to improve on investor relations</li> </ul>	<ul style="list-style-type: none"> <li>»» See comments above</li> <li>»» Occurred at the Altron investor conference</li> <li>»» Altech recently appointed external consultants to bolster its investor relations department and programme</li> </ul>

## Corporate governance report continued

Issue	Analyst perceptions	Company response
<b>Corporate governance</b>	<ul style="list-style-type: none"> <li>» 'N' shares still an issue</li> <li>» Chairman – role, remuneration and title</li>   <li>» The need for more independent directors</li> </ul>	<ul style="list-style-type: none"> <li>» See comments on previous page</li> <li>» On 1 March 2009 Dr Bill Venter assumed the role of non-executive chairman of Altron having previously been a full-time chairman. This necessitated the chairman forfeiting approximately R1.3 million of his salary to align himself with market-related fees for chairmen</li> <li>» Two additional independent non-executive directors were appointed in the last financial year, one of whom was a black female</li> <li>» With the resignation of Mark Lamberti during the year, there are now 16 directors, seven of whom are executive, two are non-executive and the balance of seven are independent non-executive directors</li> <li>» Barbara Masekela has been appointed as a member of the nomination committee and Norman Adami a member of the audit and remuneration committees</li> </ul>
<b>Progress on transformation</b>	<ul style="list-style-type: none"> <li>» Overall – transformation is not a problem – investor community happy. If any changes to be made increase black directors on boards</li> <li>» Overall perception is satisfactory/good</li> </ul>	<ul style="list-style-type: none"> <li>» See above comments and sustainability report (Transformation)</li> <li>» Altron ranked by <i>Financial Mail/Empowerdex</i> as number 1 in General Industrials sector and number 32 overall in SA for B-BBEE</li> <li>» The Altron group is tracking towards the targets set out in its Transformation Vision 2012 document</li> </ul>
<b>Disclosure</b>	<ul style="list-style-type: none"> <li>» Bytes and Altech could improve their disclosures, ie more transparency</li>   <li>» Investor day to get more information on subsidiaries</li> </ul>	<ul style="list-style-type: none"> <li>» Altech and Bytes improved their disclosures to the investor community – the Altron investor conference being a case in point. This conference included presentations by each of the material subsidiaries of the group</li> <li>» Altech, Bytes and Powertech each presented at Altron's year-end results presentation while Altech held its own results presentation</li> <li>» See comments on previous page</li> </ul>
<b>Impressions of company management</b>	<ul style="list-style-type: none"> <li>» Generally very positive</li> <li>» Some succession concerns with Altech's senior management</li> </ul>	<ul style="list-style-type: none"> <li>» COO appointed at Altech on 1 January 2008</li> <li>» Detailed succession planning policy implemented</li> </ul>
<b>Key issues facing the company</b>	<ul style="list-style-type: none"> <li>» Altech strategy</li> <li>» Slowdown in infrastructure spend and the general industrial slowdown</li> <li>» Transformation</li> <li>» The sustainability of growth off a high base</li> <li>» Illiquidity of share</li> </ul>	<ul style="list-style-type: none"> <li>» Altech has developed, among others, a comprehensive broadband strategy for East Africa</li> <li>» Self-evident following the global financial crisis during the latter part of 2008</li> <li>» The Altron group is tracking towards the targets set out in its Transformation Vision 2012 document</li> <li>» Self-evident – see Altron trading statement issued in February 2009 and year-end results announcement</li> <li>» See comments on previous page</li> </ul>

### 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 has noted the new recommendations contained in King III, tabled for comment in February this year, and will ensure that the appropriate principles and guidelines are applied at the relevant time.

In 2008, the company engaged Corporate Governance Accreditation (Pty) Limited (CGA) to again independently verify Altron's corporate governance procedures and policies. CGA is endorsed by the Institute of Directors which was largely responsible for driving the compilation of King III. All areas of governance are covered by the gap analysis, including board functioning, composition, roles and duties of executive and non-executive directors, chairmen of the board and committees 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, B-BBEE and HIV/Aids issues.

We addressed the governance deficiencies recognised in 2007 and, as a result of this continuous improvement, Altron became the first listed company in South Africa to be independently accredited for its corporate governance and was awarded a Gold certificate by CGA, achieving a score in excess of 80%. In response to the CGA process, Altron has run a check on all the items that were noted in the exception report and 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.

For the past three years, an internal audit has been conducted on the secretarial departments of both Altron and Powertech regarding all statutory forms and registers, as well as company returns, with a "good" rating being obtained for the past two years by both entities. Altech and Bytes were included in this process for the first time this year, with Bytes achieving a "good" rating, and Altech a "corrective action required" rating.

### The Altron board

#### 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 are set out in its charter (initially approved in April 2002 and revised and adopted by the board annually since February 2006). The charter, approved by the board, is contained in the board minute book and is provided to incoming directors as part of their induction programme.

#### 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 the year under review, Altron updated its formal disclosure policy, 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. During the past year the charter was amended to contain a detailed procedure for any member of the board to follow in the event that he/she wishes to seek external independent advice at the cost of the company.

### Composition of the board

During the past two years, as a result of analyst perception audits, observations and comments made at the annual general meetings, three major issues have consistently been raised concerning Altron, namely the lack of black female board members, the preponderance of executive, rather than non-executive directors, and the long-term role of the chairman as a full-time chairman. Significant progress has been made in addressing these issues with Barbara Masekela being appointed to the Altron board on 1 February 2008 and Norman Adami and Dawn Mokhobo being appointed to the Altron board on 3 November 2008. All three of these directors are independent non-executive directors.

Consistent with the company's board charter, Altron has a unitary board, constituted to both lead and control the company. Of the 16 serving directors, nine are classified as non-executive directors, of whom seven are independent (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), and seven are executive directors. Four of the independent non-executive directors are black directors and of those, half are black women.

### Chairman and chief executive

In line with best practice, the roles of chairman and chief executive are separate. On 1 March 2009, the role of Dr Bill Venter, founder and former chief executive of the group, changed from full-time chairman to non-executive chairman, following his successful guidance of the transition process that has seen his son Robert Venter take over the running of the business as chief executive. To ensure substance over form, remuneration consultants were engaged to establish an appropriate level of remuneration for the non-executive chairman. This material change in both the function and remuneration of the chairman is fully supported by the remuneration committee, the nomination committee and the board.

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. 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.

### 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. 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.

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 participating in deliberations or decision-making processes that could in any way be affected by vested interests.

### Effectiveness of the board

The board evaluates its own effectiveness every two years – or more often if circumstances require – last completing this exercise in 2007/8. This self-evaluation exercise examines six key areas: strategy and planning, board structure and role, meeting processes, performance monitoring, board and director responsibilities, and board culture and relationships. Self-evaluation questionnaires are currently with all 16 board members for completion, the findings of which (and remedial steps taken, if any) will be reported to shareholders in the 2010 annual report. In addition to the board evaluation, Altron's board members are also conducting an evaluation of each board committee (an exercise over and above any self-evaluation exercises conducted by each of the committees).

### 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.

Counsel and guidance is provided to the board on their powers and duties, individually and collectively, by the group company secretary. 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 to laws and regulations affecting the group or its businesses and professional and skills training. During 2008, Keith Rayner, an independent consultant and expert in the fields of corporate governance, JSE Listings Requirements and related aspects of the Companies Act, presented a series of talks to the group's directors on various topical issues affecting directors, notably the JSE Listings Requirements, insider trading and governance.

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 subcommittees 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.

The group company secretary is well versed in most aspects of corporate governance, having been an active member of the accounting and auditing task force of the King Committee responsible for the drafting of King III. His involvement with the King Committee has facilitated Altron and its board remaining at the cutting edge of best practices and procedures in the field of corporate governance.

### 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. Six board meetings and two strategy sessions were held during the past financial year. The accompanying table details the attendance by each director at board meetings held during the year under review:

#### Attendance at meetings

Director	Board					
	2008					2009
	Mar <sup>#</sup>	May	Aug	Oct	Nov <sup>#</sup>	Feb
Dr WP Venter	x <sup>+</sup>	✓	✓	✓	✓	✓
RE Venter	✓	✓	✓	✓	✓	✓
NJ Adami	— <sup>1</sup>	— <sup>1</sup>	— <sup>1</sup>	— <sup>1</sup>	— <sup>1</sup>	✓
MC Berzack	✓	✓	✓	✓	✓	✓
N Claussen	✓	✓	✓	✓	✓	✓
PMO Curle	✓	✓	✓	✓	✓	✓
MJ Leeming	✓	✓	✓	✓	✓	✓
Dr PM Maduna	✓	✓	✓	✓	x	x
BJM Masekela	✓	✓	✓	✓	✓	✓
JRD Modise	x	✓	✓	✓	x	✓
DNM Mokhobo	— <sup>1</sup>	— <sup>1</sup>	— <sup>1</sup>	— <sup>1</sup>	— <sup>1</sup>	✓
PD Redshaw	✓	✓	✓	✓	✓	✓
Dr HA Serebro	✓	x	✓	✓	x	✓
AMR Smith	— <sup>2</sup>	— <sup>2</sup>	✓	✓	✓	✓
CG Venter	✓	✓	✓	✓	✓	✓
PL Wilmot	x	✓	✓	✓	✓	✓

<sup>#</sup> Special board meetings.

<sup>x</sup> Submitted apologies and was granted a leave of absence in terms of the company's articles of association.

<sup>+</sup> Dr WP Venter was away on business overseas and was unable to attend this unscheduled special board meeting. He did however provide his comments to the meeting by way of a written paper which he compiled following the special Altech board meeting held on 13 March 2008, which he had attended regarding the identical business as the special Altron board meeting.

<sup>1</sup> Appointed to the Altron board on 3 November 2008 (same date as meeting).

<sup>2</sup> Appointed to the Altron board on 1 August 2008.

### 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 were reviewed and updated during the period under review to align them further 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 shareholder 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.

#### **Executive committee**

- » **Members** – Robert Venter (chairman), Norbert Claussen, Peter Curle, David Redshaw, Alex Smith and Craig Venter. Subsequent to the financial year-end, the board resolved to appoint Seara Macheli-Mkhabela as Group Executive: Corporate Affairs of Altron. Seara Macheli-Mkhabela will join the Altron executive committee on 1 June 2009. The executive committee structure appears on pages 22 to 23.
- » **Composition and proceedings** – The committee meets monthly with additional meetings convened as and when necessary
- » **Role** – The committee 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.

#### **Audit committee**

- » **Members** – Peter Wilmot (chairman), Norman Adami, Mike Leeming and Jacob Modise
- » **Composition and proceedings** – Both Alex Smith (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
  - dispensing 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
  - 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
- 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 20% 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 prior year, and preapproved by the audit committee (within the financial parameters prescribed by the committee), comprised mainly compliance and other assurance-based engagements, as listed below:

- Preparation and submission of tax returns, compliance services and company deregistration – R25 200
- Certification fees payable under the management services agreements – R67 900
- Undertaking an import/export audit (two contracts) – R300 000
- Preparation and submission of a tax return and tax computation to the Hong Kong Inland Revenue Department – R45 850
- Advice regarding the conversion to new accounting pronouncements in Spain – R77 400
- Procedures to verify a company dividend yield – R20 000
- Procedures of the SMECP in terms of the dti regulations – R50 000
- Verification of royalty payable and the issuing of a royalty report – R10 000
- Review of export documentation – R100 000
- General tax advice and compliance – R645 000
- Assistance in understanding when an entity can apply hedge accounting under new Spanish law – R103 200
- Audit of import rebate credit certificates in terms of the requirements of the International Trade and Administration Commission of South Africa – R100 000.

These services, totalling R1.55 million, represent 7% of the total group audit fee for the period under review, less than half the 20% limit prescribed.

With effect from 1 March 2008, the Altron audit committee was appointed as the formal audit committee of both Bytes and Powertech, as contemplated in the Corporate Laws Amendment Act. Peter Wilmot and Mike Leeming, both independent non-executive directors of Altron and members of the Altron audit committee, chair the Bytes and Powertech financial review and risk committees respectively.



» *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
- reviewing half-year results 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 to management and other users of financial information
- satisfying itself regarding the experience and expertise of Altron’s finance director
- discussing any problems and reservations arising from the year-end audit and any related matters that the external auditors may wish to discuss
- addresses the section 269, 270A and 300A requirements set out in the Corporate Laws Amendment Act, as pertains to Bytes and Powertech.

External auditors attend meetings by invitation. At the year-end audit committee meeting the chairman ensures that senior management and the external auditors as well as internal audit are able to report back to the committee chairman and members 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.

In the year under review, the audit committee conducted an evaluation of the effectiveness of the external auditors. The findings of the evaluation of the six major areas of responsibility of the external auditors were as follows:

- » **Audit planning** – rated between “meets objectives/requirements” to “excellent”. Management was given the opportunity to provide input, the external auditors were generally responsive, and the “materiality” used for the audit was explained to the audit committee
- » **Technical abilities, audit process/outputs and quality control** – rated towards “exceeds objectives” and “excellent”. Eight key performance areas received highly positive comments, while there was only one area of concern: The external auditors fail to adequately present and explain their internal quality control procedures, standards and processes to the audit committee as well as demonstrate their compliance therewith\*
- » **Business insight** – participants felt that the external auditors demonstrated a comprehensive understanding of Altron’s systems and businesses in general, as well as an excellent knowledge of Altron’s internal controls and reliance on internal audit
- » **Consultancy abilities** – It was found that KPMG Inc had demonstrated themselves to be extremely professional and technically competent
- » **Independence** – rated extremely high. It was found that the external auditors maintained independence, integrity and objectivity, clearly articulating their independence credentials, and complied rigorously with Altron policy governing the use of external auditors for non-audit-related services
- » General observations reflected that the external auditors:
  - contributed significant value-add to Altron’s businesses
  - complied with the dti CoGP (and are a level 3 contributor)
  - understood well the audit committee and its chairman’s expectations
  - maintained an open dialogue with the audit committee (particularly demonstrated in the impairment of the Altech NamiTech goodwill).

\***Company response:** At the February 2009 audit committee meeting, the external auditors demonstrated their internal quality control procedures, standards and processes, as well as compliance therewith. In addition, both the audit committee mandate and the compliance checklist for the audit committee have subsequently been updated to ensure that these matters are addressed and verified by the committee and the external auditors at the appropriate time during the year.

The audit committee is currently conducting a self-evaluation exercise into its effectiveness and will be reporting its findings to shareholders in the 2010 annual report.

#### Attendance at meetings

Members (and invitees)	Audit		
	2008		2009
	Apr	Oct	Feb
PL Wilmot	✓	✓	✓
NJ Adami	— <sup>1</sup>	— <sup>1</sup>	— <sup>1</sup>
MJ Leeming	✓	✓	✓
JRD Modise	✓	✓	✓
RE Venter	✓ <sup>2</sup>	✓ <sup>2</sup>	✓ <sup>2</sup>
N Claussen	✓ <sup>2</sup>	✓ <sup>2</sup>	✓ <sup>2</sup>
PD Redshaw	✓ <sup>2</sup>	✓ <sup>2</sup>	✓ <sup>2</sup>
AMR Smith	✓ <sup>2</sup>	✓ <sup>2</sup>	✓ <sup>2</sup>
CG Venter	✓ <sup>2</sup>	✗ <sup>2</sup>	✓ <sup>2</sup>

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

<sup>1</sup> Appointed as a member to the audit committee on 15 April 2009.

<sup>2</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 also responsible 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.

#### ***Re-appointment of independent auditors***

At an Altron audit committee meeting held on 26 February 2009, 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:

- » 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 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 99 of this report)
- » including the individual registered auditors who undertake the audit, does 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 the South Africa Independence laws and the applicable rules of the International Federation of Accountants (IFAC), and nominated the re-appointment of KPMG Inc as registered auditors for the 2009/10 financial year. On 27 February 2009, the Altron board, subject to shareholder approval, re-appointed KPMG Inc and Mr Mark Hoffman, the audit partner, as the independent registered auditors of Altron.

The Altron audit committee also considered and satisfied itself that KPMG Inc and its advisors are registered on the JSE Register of Auditors as contemplated in paragraph 3.86 of the JSE Listings Requirements.

#### ***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 129 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 removal of the head of internal audit would be a matter for the board as a whole.

Throughout the group, detected fraud decreased from 6 to 3 incidents over the reporting period, but represented a more than threefold increase in value of nearly R3.8 million compared to the previous year. However, a full recovery was made in the case of one incident involving R3.6 million, resulting in a net loss (net of recovery) of R167 000.

Incidents of theft increased from 59 to 75, with the net loss increasing by 35% to R4 million for the year compared to 2008. An aggressive drive to re-enforce Altron's code of conduct, and the ethics of the group received impetus with the introduction of the Deloitte Tip-Offs Anonymous independent hotline from 1 March 2007, further strengthening 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 7 in the previous year to 8, break-ins increased from 6 to 10, while armed robberies decreased from 11 incidents in the previous year to 6. The total loss from all incidents (internal and external) increased from R5.08 million to R7.85 million, before insurance recoveries.

PricewaterhouseCoopers is due to perform an independent assessment of the effectiveness of the Altron internal audit department early in 2010. Their last assessment, performed in 2005, found the Altron internal audit department complied 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.

### **Remuneration committee**

- » **Members** – Jacob Modise (chairman), Norman Adami, Myron Berzack, Dr Bill Venter and Peter Wilmot
- » **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 three times 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 in line with the Altron remuneration philosophy.

### **Self-assessment exercise**

In February 2009, following a two-year cycle, the committee conducted a self-assessment exercise to review its functioning and effectiveness. Questions for assessment help determine that 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.

Overall, the findings of the remuneration committee assessment revealed an extremely positive result with participants recording that only minor improvements were required to the functioning and effectiveness of this committee.

The members and invitees appeared to demonstrate a sound appreciation for the need and benefits of having a remuneration committee and displayed that they had applied their minds to answering the questions contained in the self-assessment.

From a committee perspective, the three major focus areas to address in the future include:

- » the relevance (or not) of discussing and debating pension fund and medical aid benefits and group life cover at remuneration committee meetings
- » tabling the directors' and officers' insurance cover at remuneration committee meetings for noting
- » the need to remain abreast of remuneration best practices and recent trends in remuneration practices including the circulation of remuneration publications to members of the committee and board.

Furthermore, the committee has, during the year:

- » 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 introducing an attendance fee component as opposed to solely a retainer
- » reconstituted the committee so that a majority of its members are now independent non-executive directors.

#### Attendance at meetings

Members (and invitees)	Remuneration			
	2008			2009
	Apr	Oct	Nov	Feb
JRD Modise	✓	✓	✓	✓
NJ Adami	— <sup>1</sup>	— <sup>1</sup>	— <sup>1</sup>	— <sup>1</sup>
MC Berzack	x	✓	x	✓
Dr WP Venter	✓ <sup>2</sup>	✓	✓	✓
PL Wilmot	✓	x	✓	✓
RE Venter	✓ <sup>3</sup>	✓ <sup>3</sup>	✓ <sup>3</sup>	✓ <sup>3</sup>
AMR Smith	— <sup>4</sup>	✓ <sup>4</sup>	✓ <sup>4</sup>	✓ <sup>4</sup>

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

<sup>1</sup> Appointed as a member to the remuneration committee on 15 April 2009.

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

<sup>3</sup> Has right of attendance but is not a member of the remuneration committee.

<sup>4</sup> Attends by invitation and is not a member of the remuneration committee. Commenced attending meetings from 1 August 2008.

For further details on the remuneration of Altron's executives see the remuneration report on page 112.

### **Risk management committee**

- » **Members** – Mike Leeming (chairman), Norbert Claussen, David Redshaw, Dr Harold Serebro, Alex Smith, 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 committee last conducted a self-evaluation exercise during 2007, and will again conduct a self-evaluation later this year, to be reported on next year. The committee believes that its composition, frequency of meetings and authority are adequate and that it operates in an atmosphere of openness and trust.

Over the last number of years, the group has made a concerted effort to engage an increasing number of independent assurers to verify the risks. These included the following:

- MS Alexander & Associates and PricewaterhouseCoopers – Environmental
- CGA – Corporate Governance
- Aurum Institute for Health Research – HIV/Aids
- Empowerdex – B-BBEE
- College Hill, Ince and Brunswicks – shareholder/analyst perception audits.

## Corporate governance report continued

Furthermore, the risk management committee has:

- » formed the Altron Information Management (IM) Council, established with the dual purpose of ensuring sound information technology (IT) governance and effective collaboration between group companies. Immediate focus areas are as follows:
  - » IM strategy development
    - Innovation
    - Standards definition
    - Policy setting
    - Procurement
    - Risk management
    - Group projects and platforms
    - Skills development
- » established a reputable independent fraud hotline with Deloitte
- » adequately reported to stakeholders on the group's material risks as contained in the 2008 Altron annual report.

#### Attendance at meetings

Members (and invitees)	Risk	
	2008	
	Apr	Oct
MJ Leeming	✓	✓
N Claussen	✓	✓
PD Redshaw	✓	✓
Dr HA Serebro	✓	✓
AMR Smith	— <sup>1</sup>	✓
RE Venter	✓	✓
CG Venter	✗	✗
PL Wilmot	✓	✓

<sup>1</sup>Appointed as a member to the Altron risk management committee on 4 August 2008.

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

**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 accompanying table lists the major consolidated risks identified by the board at the end of the review period and the section of the report where they are dealt with more comprehensively:

<b>Strategic risks</b>	<b>Report section</b>
Political uncertainty	Chairman statement and CE review
Access to funding	CFO report
Performance of individual operating companies	CE review, CFO report and operational review
Compliance to regulatory environment	Corporate governance report and sustainability report – relating to various material issues
Human capital skills shortage	Sustainability report
B-BBEE structure – meeting EE targets	Sustainability report
Lean management structure	Corporate governance report (succession planning)
Dependence on Powertech/Aberdare	CE review
Stakeholder relationships	Sustainability report – relating to various material issues
RSA dependency	Geographical highlights
Capacity constraints	CE review and operational review
Succession planning	Corporate governance report (nomination committee)
Loss of key agency/principal relationships	Operational review and sustainability report

### **Nomination committee**

» **Members** – Dr Penuell Maduna (chairman), Myron Berzack, Mike Leeming, Barbara Masekela and Dr Bill Venter

» **Composition and proceedings** – The committee comprises a majority of independent, non-executive directors and was established during the 2004/5 reporting period. It is deemed appropriate, from a corporate governance perspective, that the committee be chaired by an independent non-executive director, as opposed to Dr Bill Venter, the non-executive chairman of Altron, considering the Venter family's interest and close involvement in the company and its operations. 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, and 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

» **Role** – The committee is responsible for identifying and evaluating suitable potential candidates for appointment to the board as well as succession planning. Altron regards the role of this committee as vital to the development of a diverse leadership, representative of all race groups and in accordance with both the spirit of and the targets set out in the dti Codes of Good Practice. Employment equity at middle and senior management levels remains a key challenge across the group. The activities of this committee therefore form an integral part of Transformation Vision 2012 for identifying and developing leadership talent.

A sophisticated succession planning policy has been finalised and is being implemented throughout the group. This formal policy covers the entire leadership structure, from executive to management level. The procedure for succession planning is conducted bi-annually at each of the three subholding groups and includes such items as:

- the identity and profile of the incumbent, such as age, etc
- potential successors to the position, from both internal and external sources
- the grade for the position, qualifying potential for mobility
- assessment of the development requirements for both the incumbent and the successor
- the schedule describing the timing of succession for each post.

Initiatives such as the two-year leadership development programme (drawn from the Altron Young Presidents' Club and run by the da Vinci Institute in association with the Altech Academy) form part of this overall strategy.

While the committee does not have the authority to appoint directors – a board function – it does also make 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)	Nominations
	2008
	June
Dr PM Maduna	✓
MC Berzack	✓
MJ Leeming	✓
BJM Masekela	— <sup>1</sup>
Dr WP Venter	✓
RE Venter	✓ <sup>2</sup>

<sup>1</sup> Appointed as a member to the nomination committee on 4 August 2008.

<sup>2</sup> Has right of attendance but is not a member of the nomination committee.

### 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 (exercise completed) as well as with relevant sectoral charters
- 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 serves the future sustainability of the Altron group.

### Corporate ethics

The issue of corporate ethics is one that receives attention from the highest level of management within Altron, with the chief executive being ultimately responsible for implementing the code of ethics.

The Altron risk management committee regularly assesses the company's vulnerability and risks associated with bribery and corruption. Altron is aware that it operates in countries that have been identified as high-risk environments for bribery and corruption, including Kenya, Lesotho, Mozambique, Nigeria and Uganda. Other risk areas include the company's involvement in various government contracts that may require government licensing.

### Corporate code of conduct

The Altron code of conduct (inside front cover) is endorsed and guided by the boards of Altron, Altech, Powertech and Bytes 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 last reviewed by the Altron audit committee in February 2009 and was amended to bring the same in line with best business and corporate governance practices. Of particular note: the code is now aligned with the corporate gifts and entertainment policy, and all donations to political parties have to be approved by shareholders. No donations were made to political parties during the period under review.

### Corporate gifts and entertainment policy

During the period under review, Altron released a new corporate gifts and entertainment policy, which was circulated to all managers and employees. This policy embraces the Prevention and Combating of Corrupt Activities Act of 2004, and sets out clearly and prescriptively the boundaries that define corrupt activities in terms of the giving and receiving of gifts and/or entertainment. The policy defines categories of gifts and entertainment and describes the approvals required, as well as the immediate or ultimate vested authority responsible. Procedures for reporting criminal behaviour and disciplinary action are also set out in the policy and employees are encouraged to report any such behaviour to the Deloitte Tip-Offs Anonymous hotline.

On employment, Altron employees receive the Altron policy manual which includes a corporate code of conduct. Copies of all relevant policies regarding corporate ethics are made available on the Altron intranet, and an ongoing employee awareness campaign makes use of posters, the in-house publication *Profile* and staff magazines to highlight the issue. Similar marketing channels are used to publicise the group's whistle-blowing hotline. This confidential fraud hotline is independently managed by Deloitte which, together with the Altron internal audit department and the relevant subholding group security officers, monitors Altron's compliance with ethical practice.

Incidences of criminal activity reported and dealt with by the Altron group during the period under review are detailed above under 'Internal controls and internal audit' on page 103.

### Share dealings

Altron and its subholding companies 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 and 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.