



# 2017 INTEGRATED ANNUAL REPORT

# CONTENTS

## OUR REPORT

About this Report .....	1
A Message from Leadership .....	3
Performance Highlights .....	6

## OUR COMPANY

Vision and Mission Statement .....	10
Our Strategy and Value Proposition .....	11
Our Sustainable Business Model .....	13
Organisational Overview .....	16

## OUR GOVERNANCE

Governance Review .....	22
Risk Management .....	24
Ethics Review .....	28

## OUR PERFORMANCE

Financial Sustainability .....	32
Human Capital .....	38
Products and Services .....	47
External Relationships .....	52
Performance Summary .....	60

# ABOUT THIS REPORT

This integrated annual report (IAR) is the eighth published by Allied Electronics Corporation Limited (Altron). The report provides a holistic view of the group's strategy, performance and prospects, and outlines how we have created value for all of our stakeholders during the year in review. It also sets out the group's ambitions and objectives for the 2018 financial year and beyond.

As always, our intention is to represent both financial and important non-financial aspects of performance in a balanced way, which we do through the framework of our four strategic value drivers: financial sustainability, human capital, products and services, and external relationships.

In reporting in this integrated manner we hope to provide our stakeholders with all the information they require to make decisions regarding their continued interaction with our business. This year, to improve the fluidity of our reporting, we have included information regarding our relationships with our key stakeholder groups, how we engage with each of them, and how we respond to their interests and concerns within each section of "Our Performance", rather than in a separate section.

## REPORTING FRAMEWORKS

Altron takes guidance on its operations and reporting from the King Report on Governance for South Africa 2016 (King III) and aligns its reporting with the Integrated Reporting Council's Integrated Reporting (IR) Framework and the core level of the Global Reporting Initiative's (GRI) G4 sustainability reporting guidelines.

Our financial statements are produced in accordance with the International Financial Reporting Standards (IFRS) and comply with the JSE Listings Requirements as well as the requirements of the Companies Act of South Africa 2008.

## ASSURANCE

Our annual financial statements are audited by KPMG who expressed an unmodified opinion thereon. Our B-BBEE rating was independently verified in June 2016 by Empowerdex, a SANAS-accredited service provider.

As in 2016, the group has decided this year not to assure its environmental

footprint and health and safety disclosures by a third party. We rely on our internal audit department to provide independent oversight over controls and data integrity as part of the normal health and safety audit process.

## SCOPE AND PARAMETERS

This report covers the performance of the group during the financial year spanning 1 March 2016 to 28 February 2017 (hereafter referred to as "2017").

This report contains only the content deemed most critical to driving value creation for the group and its stakeholders going forward. Therefore, the contents of this report relate primarily to the activities and performance of our continuing core operations. In 2017 this represented a total of 66 facilities.

Details of consolidations, closures and disposals during the year, as well as changes in the structure and/or ownership of our operations, can be found in the company structure section on pages 16 and 17. A diagrammatic representation of the group's structure, including both core and non-core operations can be found on page 17.

With respect to comparability, all significant items are reported on a like-for-like basis with no major restatements. In order to ensure comparability, information related to the core operations has been separated from that relating to non-core operations where relevant. Significant decreases in numbers, where these are noted, are primarily due to the exclusion of Aberdare Cables from the group's financial statements after June 2016, when that company exited the group.

Please see our public website ([www.altron.com](http://www.altron.com)) for full and abridged financial statements and other additional disclosures.

## FORWARD-LOOKING STATEMENTS

Certain statements in this report constitute forward-looking statements. Such statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance, objectives or achievements of the Altron group and its business divisions, joint ventures, associates and foreign operations, as well as the industry in which it operates, to be materially different from future results, performance, objectives or achievements expressed or implied by these forward-looking statements. No assurance can be given that forward-looking statements will prove to be correct and undue reliance should not be placed on such statements.

The performance of the Altron group is subject to the effect of changes in commodity prices, currency fluctuations and the risks involved in the particular industries in

which we operate. The Altron group undertakes no obligation to update publicly or to release any revisions to these forward-looking statements to reflect events or circumstances after the date of publication of this report or to reflect the occurrence of unanticipated events.

## BOARD APPROVAL

The Altron board acknowledges its responsibility for ensuring the integrity, objectivity, reliability and transparency of the 2017 IAR. The board confirms that it has collectively reviewed the report's contents and to the best of its knowledge and belief it addresses the Altron group's material issues and fairly presents the integrated performance of the organisation and its impact on the environment and stakeholders. Refer to the board statement for the full statement and approval of the Altron board.

## FEEDBACK

This report represents our continued efforts to improve the quality and accessibility of our disclosure to all of our stakeholders, and their feedback is important in helping us to improve the way we report and communicate. We welcome all feedback – on this report and otherwise – via e-mail to [info@altron.com](mailto:info@altron.com).



**Mteto Nyati**  
Chief Executive

and

**Mike Leeming**  
Chairman

# A MESSAGE FROM LEADERSHIP

**FY2017 was the year in which we started to fundamentally change the structure of the group. In FY2016 Altron committed to rationalising and refocusing its business in order to reduce overhead costs, streamline management and ultimately reduce its debt burden. We believe that we are well on our way to achieving those goals. Now, as we start to emerge from a challenging period of change in the group, with the benefit of additional equity capital and a new leadership, we will start to enter a new phase of growth in our chosen areas of business.**

We have almost completed the process of divesting our non-core assets in the manufacturing sector and the group is successfully repositioning itself as a smaller, leaner, ICT-focused business. We are confident that our new ICT-focused strategy is sound. Our improved approach to capital allocation has stabilised the business, reduced our risk and freed up capital for prudent investments, which will enable the new phase of growth. In addition, as the restructuring of the group has taken place, there has been a positive shift in management energy and we have been able to significantly increase management time spent on growing and moving forward to achieve improved performance in our core businesses.

This upturn in energy and confidence has started to be reflected in our FY2017 results. Despite a challenging economic and political environment, there has been a satisfactory improvement in the group's overall performance. There has been a marginal decline in the group's core revenue and headline earnings, primarily as a result of the closure of NOR Paper and the loss of Altech Autopage's prepaid airtime business which was initially retained as part of the Altech Autopage divestment. These factors reduced revenue in the core part of the business by R1,3 billion. Normalised revenue

growth in the core operations was R1 billion or approximately 6,5%. Our earnings before interest, taxes, depreciation and amortisation (EBITDA) improved by 4,3%. In our non-core operations, improved operational performance resulted in significantly lower operating losses.

During the year we received the balance of the proceeds from the sale of Altech Autopage and we sold a majority equity interest in Aberdare Cables. Using the cash generated by these and other smaller disposals, we have reduced our debt by approximately R1,5 billion (42%). With the proceeds from the further disposals we expect even further debt reductions over the next few months. Within the resulting leaner operation we have started to redeploy our people and capital more efficiently towards the opportunities presented in the technology field.

More broadly, our industry experience remains unsurpassed and our core is stronger than ever as we offer increasingly adaptive, innovative suites of products and services, and end-to-end solutions to a more focused customer base. We are operating in a market that is shifting from products to solution sets, such as cloud and software services. To thrive we need to design, develop and commercialise

new products and services; to become disruptors rather than being disrupted.

A number of innovative highlights took place during this year, spanning the healthcare, financial services, safety and security, and training and development industries within our group. For example, the launch of the Jamming Resist™ technology by Altech Netstar, which has solidified our position as market leader in the technology space of vehicle tracking and fleet management, the roll-out of the eHealth platform within the City of Johannesburg to improve healthcare delivery by Med-e-Mass, and digital real-time training through Bytes People Solutions.

We made a number of large strategic client wins and we have entered into exciting new strategic international partnerships – most notably with Nokia and British Telecoms. These partnerships will enable Altron to offer its customers significant experience and knowledge in network solutions, and improve the extent and robustness of our technology and solutions portfolio.

In line with our announcement last year, as the group's transition to a core ICT business nears completion, Altron has now also completed the shift from a family-run business to an independent management structure.

In December 2016 we finalised negotiations with Value Capital Partners (VCP), an investment firm that deploys the best of private equity principles in the listed equity space. Its philosophy is to invest in businesses with an attractive business model trading significantly below intrinsic value that lend themselves to material value unlock. The negotiations included VCP's injection of



## A MESSAGE FROM LEADERSHIP | Continued

R400 million of capital into Altron, through a cash subscription for shares arrangement. This additional capital will be used to accelerate Altron's growth initiatives in its core IT operations. The founding members of VCP have also joined the board and bring with them many years of successful involvement in helping South African businesses to grow their performance. The interests of VCP are fully aligned with the interests of all of our shareholders.

The investment by VCP into Altron, which was concluded after this reporting period, started a number of actions as set out during the negotiations, namely:

- the collapse of the company's historical dual share capital structure and the removal of the Venter family's absolute voting control over the company;
- subscription by the Venter family for a new high voting share which will entitle the Venter family to exercise 25% plus one vote at any shareholders' meeting for as long as the Venter family owns in excess of 10% of the "A" class shares in the company;
- introduction of VCP as a new strategic partner, which is expected to be a catalyst in driving shareholder value creation by accelerating the company's growth initiatives within its core IT operations; and
- appointment of VCP's co-founders, Messrs Antony Ball and Samuel Sithole, to the board of directors of Altron as non-executive directors.

From the board's perspective, the group's founder, Dr Bill Venter, retired as non-executive chairman at the end of February 2017 but remains on the board as both a non-executive director of the group and as the Altron chairman emeritus. There are no words adequate to thank Dr Venter for the foresight and vision he showed some 52 years

ago in leaving the employ of Standard Telephones and Cables to establish his own small company, Allied Electric, with just a handful of equally dedicated and courageous colleagues. In five decades Dr Venter's leadership helped to build the group into one of the largest of its kind on the African continent and a cornerstone of the South African economy.

Dr Venter has been replaced by Mr Mike Leeming, an independent non-executive director of Altron since 2002. Mike has extensive experience in the banking sector and has served as a non-executive director on the boards of a number of listed and private companies, and so the leadership of the board is in capable hands.

Post year-end, Mr Robbie Venter announced his stepping down as Altron's chief executive after 27 years of service with the group, 16 of which were served as chief executive. Robbie will assume a non-executive director role in the group. The board wishes to acknowledge Robbie's contribution to Altron and wishes him well for the future. Robbie's role as chief executive has been filled from 1 April 2017 by Mr Mteto Nyati, previously of MTN but with a strong ICT background, having held senior positions at both IBM and Microsoft for many years.

We would like to thank Mr Norman Adami and Ms Sindi Mabaso-Koyana, who resigned from the board as non-executive directors during 2016, and Mr Andrew Johnston, who resigned as company secretary, for their service to the group. We welcome Mr WK Groenewald to the position of company secretary.

Subsequent to our year-end we have also announced the retirement from the board of Messrs Myron Berzack, Jacob Modise and Simon Susman, who have been long-standing and loyal directors. We would particularly like to thank them for their significant role in the restructuring of the group over the past year.

We have also announced the appointment of Messrs Brett Dawson – the previous CEO of DiData – and Stewart van Graan – the previous MD of Dell Computers, South Africa and Dell Africa, but with extensive IBM experience – as non-executive directors with effect 1 June 2017. In addition to his role as a non-independent non-executive director Brett has agreed to assist the group as a consultant and will work closely with Mteto and the executive team to assist in achieving the significant goals that are being set.

As always, we thank the more than 10 000 employees of the group who, despite another challenging year, have remained loyal and dedicated to the business. We presented over 200 long-service awards this year, five of which were to individuals who had been with Altron for 40 years. Our appreciation is also extended to our many customers, suppliers and financiers who have remained with us over the very difficult period we have gone through.

Looking ahead to 2018, the group's focus will be organic and acquisitive growth. In South Africa we plan to build a country-centred operating model that will in time be replicated in other countries through geographic expansion. We expect to soon complete the remaining non-core asset disposals to effect the group's transition to its core ICT business and will continue to drive our acquisition of the skills and resources to support and execute our new growth strategy.



**Mteto Nyati**  
Chief Executive



**Mike Leeming**  
Chairman



# PERFORMANCE HIGHLIGHTS

**R618 million**  
operating profit

Earnings before interest, taxes, depreciation and amortisation (EBITDA) increased by 123% to R840 million

Group's debt reduced by  
**42%**  
year-on-year



## Training and development

Bytes People Solutions: Digital Real-Time Training (RTT) remote vendor training solution

Headline earnings per share of  
**71c**

Altron joined the Nokia Global Partner Programme

Streamlining and simplification of corporate and executive structures continues, with **increased focus on customer engagement**

**R400 million**

VCP equity investment will accelerate growth initiatives within core operations





## STRATEGIC CLIENT WINS

City of Tshwane  
broadband network –  
Funding smart cities

**Passenger Rail  
Agency of South  
Africa (PRASA)  
GSM-R Network**

eThekweni Municipality  
TETRA network

PUTCO fleet  
management

**Bytes  
Systems  
Integration:**  
biometric voter  
registration  
stations

## Safety and security

**Bytes Systems  
Integration:**

Match-on-Card  
RSA national ID and  
fingerprint reader

**Altech Netstar:**  
Jamming Resist  
– vehicle tracking  
and anti-jamming  
solution

## Performance Challenges

A challenging economic  
environment

An unstable political environment

Completing disposals of non-core  
assets

10% reduction in HEPS within  
core operations due to higher  
interest costs

Shortage of industry-specific skills

Increase in international  
competition

## Financial Services

Altech Card Solutions: prepaid token dispensing and management platform

Altech NuPay: “Man-in-the-Van” debt collection

## INNOVATION HIGHLIGHTS

## Healthcare

Med-e-Mass:  
electronic patient  
health records





## VISION AND MISSION STATEMENT

page 10

## OUR STRATEGY AND VALUE PROPOSITION

page 11

## OUR SUSTAINABLE BUSINESS MODEL

page 13

## ORGANISATIONAL OVERVIEW

page 16

# OUR COMPANY

**Our vision** is to leverage emerging market dynamics and integrate technology solutions in order to enable sustainable growth.

# VISION AND MISSION STATEMENT

**Our mission** is to make technology accessible to our customers through our heritage, our people, our innovative products and services, our partnerships and our commitment to ethical business practices in order to ensure sustainable growth and financial return.

In practice, this means focusing on customer-centric solutions rather than just selling products. It means taking pride in our long-standing South African history and the longevity of our business. It means showing appreciation for the talented people whose loyalty and effort drives our business. It means continually investing in innovation and adaptation to provide innovative products and services. It means staying at the forefront of technology by partnering with some of the best companies in the world.

If we accomplish all this with ethics and integrity, we believe sustainable growth and financial return will follow, delivering value to our key stakeholders.



# OUR STRATEGY AND VALUE PROPOSITION

**Altron is coming out of a difficult period. We have embraced a shift to a smaller group focused on information communication and technology (ICT). Having almost completed our exit from the manufacturing sector, the group is ready to embark on a new phase of growth. Our growth strategy will be both organic and acquisitive.**

This year we have continued to focus on re-evaluating, streamlining and centralising our business around our core operations in order to build a stable, profitable future for the group. When this process is complete, the group will pursue new avenues of growth within its consolidated base of core businesses.

The market shift to digital is providing opportunities for the Altron group. In the ICT space there are currently no clear leaders. Almost all key players are transitioning their businesses to remain relevant to their customers.

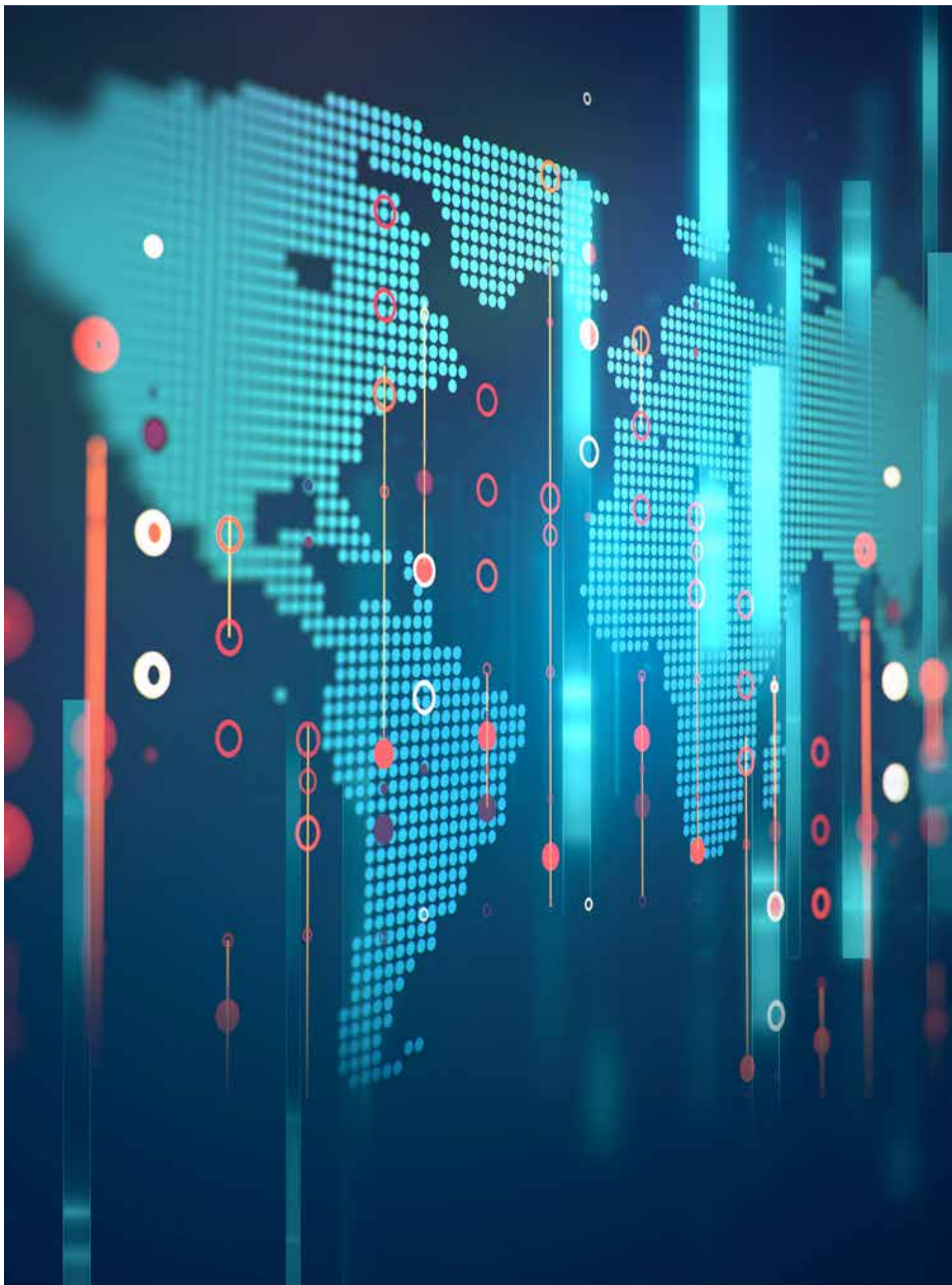
Altron is committed to being a significant ICT player in its geography. We intend to leverage our strong customer relationships and proven track record of delivering complex solutions and to reposition ourselves as a preferred digital solutions provider to business and government. Over the years we have built strategic partnerships with original equipment manufacturers (OEMs) in the West and East and we will continue to expand these partnerships to support our ICT aspirations.

Our new mission is to provide cost-effective solutions that are locally relevant. To do so we will invest in building core capabilities in the following areas:

- Cyber security
- Cloud services
- Advanced analytics
- Managed services
- Mobile application development

A key part of our strategy is to aggressively drive cost-efficiencies. Starting at head office, followed by a similar process within operations, we have begun to streamline our structures and will continue to do so.

Altron has always differentiated itself through local innovation and this is a space in which we will place significant focus over the next few years. We have local solutions in the e-government and data analytics spaces, and we plan to nurture these local solutions and embed them into our customers, who in turn are intent on disrupting their own industries.



# OUR SUSTAINABLE BUSINESS MODEL

The Altron group comprises 10 businesses within our core telecommunications and information technology operations. Only a small part of Altech Netstar deals directly with the consumer, whereas the rest of the group follows a business-to-business model. The value we create as a group is dependent on various resources and relationships, as well as being subject to shifts in our external operating environment.

Altron's sustainable business model is built around four value drivers that drive our strategy and our performance. These drivers – and the material issues they are comprised of – are at the core of our business strategy, informing how we do business. They are:

- financial sustainability;
- human capital;
- products and services; and
- external relationships.

We rely on a number of inputs, each relating to one or more of our value drivers, to enable us to conduct our business activities and create value for all of our stakeholders. The capitals model provides a useful framework to demonstrate if and how the sustainable business strategy utilises and grows each of the six “capitals” on which business is dependent over the long term.



## OUR SUSTAINABLE BUSINESS MODEL | Continued

## 4 value drivers

## Financial sustainability



Profitable growth  
Capital and cost-efficiencies  
Rationalise and refocus the business

## Material issues

## Strategic objectives

## Risks

Divesting of capital-intensive operations  
Focus on sustainability and long-term growth of all core business units  
Optimise asset portfolio and capital allocation and strategic prioritisation of capital expenditure  
Reinvestment in technological solutions

Disposal of discontinued operations  
Altron growth profile  
Broad margin pressure – ensuring cost-efficiencies and maintaining profitability in the current economic climate  
Debt levels

## Human capital



Transformation  
Human resources  
Company culture

A stable workforce that is orientated towards high-end technological and business skills  
Ensure transformation at top management levels

Shortage of relevant skills within the industries in which we operate  
Retention of current skilled employees  
Transformation, particularly at senior management levels  
Retaining current B-BBEE levels to ensure competitive advantage

## Products and services



Innovation and R&D  
Product and service offerings

Lead through innovation by embracing technology and market shifts  
Invest in new and modern areas of TMT  
Ensure strategic alignment of product and services portfolios for growth and sustainability  
Continue shift towards cloud-based technology  
Retention of current key OEM and strategic partner relationships and pursuit of new partners

Increase in international competition as Africa shows potential for growth and development opportunities  
Commoditisation of IT products and services  
Disintermediation risk in representing large global OEMs

## External relationships



Clients and customers  
Investors  
Government and parastatals  
Strategic partners  
Suppliers  
Community  
Environment

Build and maintain strategic alliances and key partnerships  
New partnerships and partnership models with international OEMs  
Customer-centric focus, understanding current and future spending patterns

Reputational risk and investor confidence  
Customer concentration  
Effectiveness of sales function



## 6 capital inputs

### Activities

### Outputs

### Outcomes

#### Financial capital

**R4,4 billion** in market capitalisation

**R1,9 billion** in net debt

Equity injection of **R400 million** from Value Capital Partners (VCP) post year-end

Emphasis placed on cash flow management and reducing borrowings

Various disposals of non-core operations have been concluded or are in negotiation

Ongoing consolidation of the group's new shared services structures

Disposals of non-core operations have released substantial capital

Expected cost decreases – resulting from extensive restructuring and rationalisation – have materialised for the most part as anticipated

**R19,7 billion** in revenue

Headline earnings of **71 cents per share**

**4,3%** improvement in EBITDA margin

A total cost saving of approximately **R120 million** achieved

Debt levels reduced **42%** year-on-year and **50%** from peak borrowing levels

#### Human capital

**10 219** employees

**8 206** of which in core operations

Ongoing talent management and training and skills development, for example, through the Bill Venter Academy

Altron group selection committee launched in October 2016

Expansion of KwaMashu ICT training centre and learnership programme in Soweto

**22** active bursars

**8** new bursaries awarded in 2017

**R87,5 million** spent on skills development across the group

**433** internal promotions

**47** employees graduated or completed programmes through the Bill Venter Academy

#### Intellectual and Manufactured capitals

Knowledge, experience and local industry insights

Delivery of services and integration of solutions within the IT space

Development of our own software solutions such as SAMRAS, which is used by local governments across South Africa

Investment in software development and products

Altech Netstar developed its Jamming Resist™ technology

Altron joined the Nokia Global Partner Programme

Partnering with leading technology companies in cloud-based solutions

**R220,5 million** invested in R&D

Eight patents filed

Altron remains at the forefront of cutting-edge technological solutions

Efficient delivery of an innovative suite of products, services and solutions in a customised manner that is relevant and beneficial to our customers

#### Social and relationship capital

New strategic international partnerships established with Nokia and Salesforce

**R8,4 million** invested into various community initiatives

#### Natural capital

Consumed:

86 196 MWh electricity

276 547 kl of water

Strategic client relationship building and maintenance through centralised CRM systems

KAE programme assist in pre-empting clients' needs

Investment in sales management processes, salespeople and business development through BDAP

Eco-friendly office initiatives

Two new strategic international partnerships

Altron TMT paid approximately **R3,8 billion** to suppliers, of which **R3,7 billion** recognised as B-BBEE procurement spend

Total of 104 933 tCO<sub>2</sub>e emissions

29 469 tCO<sub>2</sub>e from core operations

75 465 tCO<sub>2</sub>e from non-core operations

1 175 tonnes of municipal waste generated

Improvement in share price

Client and customer satisfaction which, in turn, creates demand for our products and services and strengthens our brand and reputation

Growth in overall revenues from strategic accounts, particularly in the telecommunications and government sectors

Upliftment of the communities in which we operate through corporate social investment initiatives

# ORGANISATIONAL REVIEW

## COMPANY STRUCTURE

**2017 was our first year of operating within our rationalised company structure. While we still hold some of our non-core operations, those so categorised are classified as held for sale. This does not mean that those entities are no longer operational; rather that they no longer form part of our core business operations.**

Altron TMT, into which our core businesses were grouped last year, is organised into three business divisions: telecommunications, multimedia and electronics, and information technology. Each Altech and Bytes company falls under these units within a group of similar and complementary companies and/or product and services offering.



**Telecommunications:** offers communications services ranging from voice, data and video to digital radio communication networks and internet services.



**Multimedia and electronics:** assembles various products and distributes electronic components, products and solutions.



**Information technology:** provides services including specialised software solutions and secure transactional solutions for the financial, retail and healthcare industries, as well as complete outsource solutions for IT and communication infrastructure.

We believe that it is in these areas that the future of Altron lies as we work to refocus and reposition the group as a technology powerhouse. Collectively, these divisions and their respective businesses are well positioned to deliver seamless and holistic end-to-end solutions to our customers.

## KEY ORGANISATIONAL CHANGES

### Disposals and closures

- **Powertech Africa** disposed of effective 1 April 2016.
- Effective 30 June 2016 Power Technologies disposed of 75% of its 70% equity interest in **Aberdare Cables**. Aberdare International also disposed of 100% of its equity interest in **Aberdare Europe**, including **Cables de Comunicaciones Zaragoza, S.L. (Cablescom)** and **Alcobre Conductores Eléctricos, S.A.** to Hengtong (HTGD), a leading Chinese power and fibre optic cable manufacturer, effective 30 June 2016. Powertech will retain a 17,5% shareholding in **Aberdare Cables** for a minimum of two years. The disposal did not include the group's 50% shareholding in the **CBI Telecom Cables** joint venture.
- **Strike Technologies** was sold to Penbro Kelnick effective 30 June 2016.
- **Technology Integrated Solutions (TIS)** was sold effective 1 November 2016.
- **NOR Paper**, a division in Bytes Document Solutions, was closed and inventory sold off.



#### Discontinuations/Held for sale

The following entities remain operational, but no longer form part of our core operations.

- **Powertech Transformers**
- **Crabtree Electrical Accessories**
- **Powertech Batteries Group**
- **Powertech System Integrators**
- **Altech Multimedia/UEC**

## ORGANISATIONAL REVIEW | Continued

## GLOBAL FOOTPRINT

Following the group's rationalisation, Altron has reduced its global presence. However, the group retains a direct presence in eight (2016: 18) countries, including South Africa. In addition, our strategic partnerships with leading international technology companies gives us access to leading technology capabilities and products from across the world, including Asia, Europe and North America.

The majority of our revenue (71%) and headcount (96%) are derived from the local market in South Africa where the group is headquartered.

Looking forward, we intend to expand our top-performing businesses to different countries and continents. We will, however, manage the risk of doing so by proceeding cautiously; ensuring that we test foreign markets and follow our customers.

**SOUTH AFRICA** | R14 billion

**71%**  
of group turnover







26%

<b>Australia:</b> R100,3 million	0,5%
<b>China:</b> R3,4 million	0,0%
<b>France:</b> R12,7 million	0,1%
<b>Germany:</b> R90,7 million	0,5%
<b>Portugal:</b> R169,4 million	0,9%
<b>Spain:</b> R159,4 million	0,8%
<b>United Arab Emirates:</b> R39,4 million	0,2%
<b>United Kingdom:</b> R4,5 billion	22,8%

**REST OF WORLD** R5,1 billion

Percentage of group revenue derived from operations in country

3%

<b>REST OF AFRICA</b>	<b>R595,6 million</b>
<b>Botswana:</b> R54,9 million	0,3%
<b>Kenya:</b> R37,6 million	0,2%
<b>Lesotho:</b> R62,3 million	0,3%
<b>Mauritius:</b> R47,6 million	0,2%
<b>Mozambique:</b> R103,8 million	0,5%
<b>Namibia:</b> R289,3 million	1,5%
<b>Tanzania:</b> R0,05 million	0,001%



## GOVERNANCE REVIEW

page 22

## RISK MANAGEMENT

page 24

## ETHICS REVIEW

page 28

# OUR GOVERNANCE



# GOVERNANCE REVIEW

**Sound corporate governance and a commitment to high standards of business integrity is the cornerstone of our business. Altron is determined to deliver long-term value to all of our stakeholders and we recognise the importance of our governance structures and processes in ensuring the efficiency, effectiveness and sustainability of our organisation. Strong structures and controls and an unwavering commitment to ethical conduct help us to mitigate risk, ensure accountability and deliver against our strategy and objectives.**

## OUR BOARD OF DIRECTORS

The board and its sub-committees are responsible for ensuring that the group's operations, processes and activities are underpinned by a strong system of governance that is fully integrated into all aspects of its business, while empowering management to execute and deliver against our strategy. The board remains accountable for the ongoing sustainability of the group.

At year-end the Altron board consisted of ten members, three of whom are black males and one who is a black female. Two are executive directors: the chief executive and the chief financial officer. Eight board members are non-executive directors, six of whom are independent.

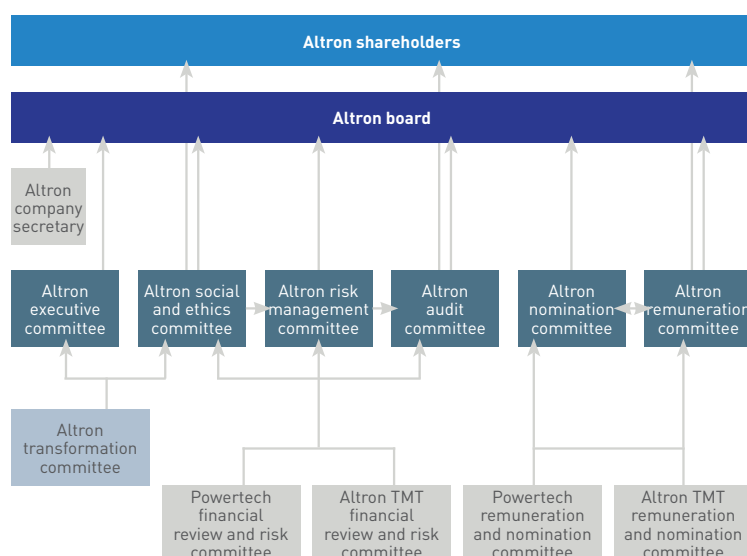
Each of the Altron group's subsidiary companies has separate boards of directors, which the Altron board and its committees oversee and guide. The subsidiaries are also governed by the limits of authority set by the Altron board. With the exception of the executive committee,

all Altron committees are chaired by an independent non-executive director who attends our annual general meeting to respond to any shareholder queries. The committees are empowered to seek outside or other professional advice, as the members consider necessary, to carry out their duties. The Altron board continually assesses the appropriateness of the committees, as well as the need for further committees of the board to be constituted, to

assist it in carrying out its duties and meeting its statutory and legislative requirements.

The board met ten times during the year. Attendance at the board and special board meetings, as well as attendance at sub-committee meetings, together with full biographies of each director, is available at [www.altron.com](http://www.altron.com).

2017 was a momentous year for the group in terms of its governance in that Dr Bill Venter,





founder of the group, resigned from his role as non-executive chairman with effect from 28 February 2017. He was replaced by Mr Mike Leeming, previously the group's lead independent non-executive director on the Altron board. Dr Venter assumed a non-executive director role on the board, as chairman emeritus, with effect from 1 March 2017.

Mr WK Groenewald has been appointed as the group company secretary of Altron with effect from 1 March 2017. Mr Groenewald has fulfilled the role of interim group company secretary since November 2016.

Post year-end VCP's co-founders, Messrs Antony Ball and Samuel Sithole, were appointed to the Altron board as non-executive directors effective 9 March 2017.

## GOVERNANCE FRAMEWORKS

To ensure that we consistently practise effective corporate governance throughout the Altron group, our board applies the JSE Listings Requirements and the principles of the King III Code on Corporate Governance. In 2017 we will commence the implementation of the principles of King IV (which was launched in April 2017) in a phased approach. In 2018 we will undertake a gap analysis to establish what shortcomings, if any, exist in relation to our implementation of King IV, which the group will be required to implement in its 2019 financial year.

Internally the board's responsibilities and duties are outlined in the board charter, which the board reviews and adopts annually. There were no

changes to the board charter this year and no substantial changes are envisaged for 2018; however, the charter and committee mandates will be reviewed in line with King IV, as appropriate. The Altron Board Charter and sub-committee mandates and terms of reference are available on the Altron website.

A broader framework of internal policies and controls, including a compliance framework, code of ethics, as well as policies and protocols to govern processes and operations, manages our economic, environmental and social performance, and provides for effective risk assessment. This governance framework, which is reviewed annually, is applicable to all of the group's subsidiaries, in addition to those policies and procedures that are specific to certain subsidiaries.

During the year we embarked on a review of the group's reporting framework in the context of governance, risk, compliance and sustainability (GRCS) in order to assess reporting challenges experienced within the group. This task team will help to build a defined approach for Altron to review its GRCS obligations and to help the group companies implement it in an integrated manner in the year ahead.

## REMUNERATION

In 2017 we updated our remuneration practices and policies based on engagement with stakeholders and the board adopted a group remuneration policy. This new policy more closely incentivises performance, bringing executive salaries in alignment with shareholders' interests. Full details are included in the group's remuneration report, available online.

## BOARD EVALUATIONS

During 2017 we began preparing for board and sub-committee self-evaluations. Given the ongoing restructuring of Altron, this exercise will receive further attention during the course of the year ahead.

## KEY FOCUS AREAS OF THE BOARD IN 2017

- Amendments to the memorandum of incorporation in line with the change in the control structure of the group towards the end of the 2017 financial year
- Continuous assessment of remuneration practices and policies, including an adoption of an updated Altron Group Remuneration Policy
- Altron Board Gender Diversity Policy prepared for adoption during May 2017

## LOOKING AHEAD

Going into 2018 our priority is to continue growing and to expand on the collective ICT experience of the board. We will take the appropriate steps in order to ensure that the Altron board is comprised of the appropriate balance of knowledge, skills and experience to contribute to the achievement of the group's overall strategic vision. A priority in this process will be to seek black female management talent, in order to address our transformational targets (see page 41 for further detail).

We also plan to resize the Altron board in line with appropriate corporate governance requirements. This will be attended to as an ongoing process throughout the 2018 financial year.

# RISK MANAGEMENT

## OUR APPROACH TO RISK MANAGEMENT

Risk management at Altron is about safeguarding our ability to create value for all of our stakeholders and is carried out within the governance structures of the group. Operational risk identification, management and reporting are achieved via a bottom-up approach. Risks are then managed strategically in a top-down approach emanating from the board.

In 2017 the group business risk department implemented a single

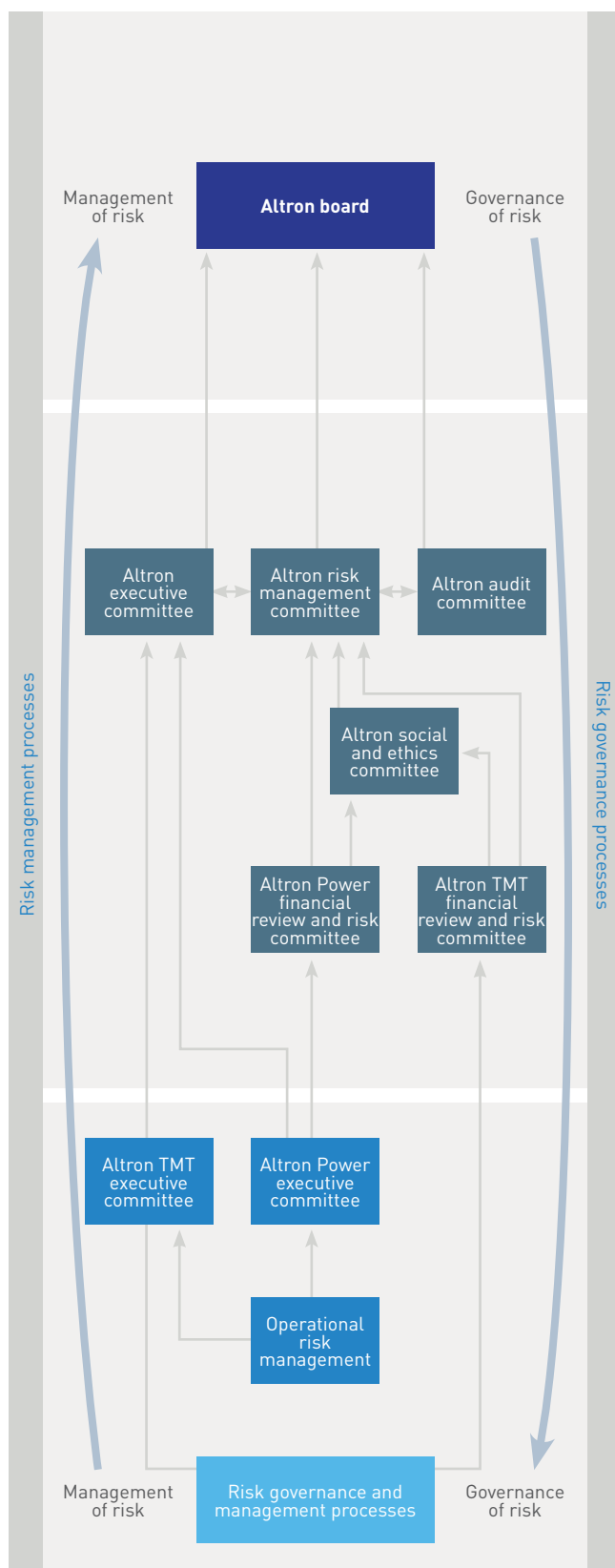
risk management, reporting and governance framework into all the relevant departments, divisions and services within the group. The result is that the group risk function (as is also occurring with the governance, compliance and sustainability functions) has been centralised into a foundational, group-wide process, and embedded into the day-to-day management of each of the group's businesses.

In addition, the group's risk reporting policies and escalation procedures have been

standardised, resulting in a faster and more efficient upward flow of risk information. This will assist in reducing unnecessary redundancy in reporting and will enable the group to proactively monitor and mitigate risks.

The new frameworks and processes have already begun to show results in increasing the accountability of operations and management of the risks at all levels, and are making it easier to consolidate and analyse risk-related data at a group level.

## RISK REPORTING, GOVERNANCE AND MANAGEMENT PROCESSES



### 3 Altron board evaluates and manages risks strategically at a group level

#### Risk reporting and management process

- The board oversees the risk governance and risk management processes, ensuring that these remain adequate and effective, and reviews the key risks and mitigation actions taken to ensure that they are adequate.
- The audit committee provides an opinion to the board that appropriate internal financial controls are operating as designed.

### 2 Risks reported to divisional executive committees and financial review and risk committees

#### Risk reporting and management process

- Altron's internal audit department reviews the control environments at operational levels based on an approved audit plan. Its findings are reported to the audit committee.
- The Altron business risk department ensures that risk controls are adequately implemented and reports on the implementation of risk mitigation strategies to the financial review and risk committees.
- Major risks are elevated to:
  - the group chief executive through the executive committee;
  - the social and ethics committee (in respect of risks relating to the non-financial aspects of the business);
  - the risk management committee (in respect of all risks, both financial and non-financial); and
  - the Altron audit committee.

### 1 Risk management at an operational level

#### Risk reporting and management process

- Significant risks are identified, consolidated and managed at operational level, and are reported to the relevant executive committees.
- Altron internal audit performs control reviews and provides management with recommendations on corrective action items.
- The business risk department, responsible for the continuous monitoring and assessment of material risks as well as ensuring that risk mitigation strategies are timeously actioned, performs quarterly follow-ups pertaining to risk management documents.

## RISK MANAGEMENT | Continued

## RISK GOVERNANCE CONTROLS

- A standardised set of policies and procedures (reviewed annually)
- A formal delegation of authority (reviewed annually)
- Operational management reviews
- Executive committee meetings
- Risk review meetings

Our range of risks is aligned with our four strategic value drivers: financial sustainability, human capital, products and services, and external relationships. Management of the operations assesses our inherent risk exposure to determine whether risks should be treated, tolerated,

transferred or terminated. If a risk is considered significant, an action plan is developed by management to mitigate and/or reduce the risk to a more acceptable level. The action plan stipulates who is responsible for taking action, what kind of action needs to be taken and also includes a time frame within which a risk needs to be reduced or mitigated.

## KEY RISKS DURING 2017

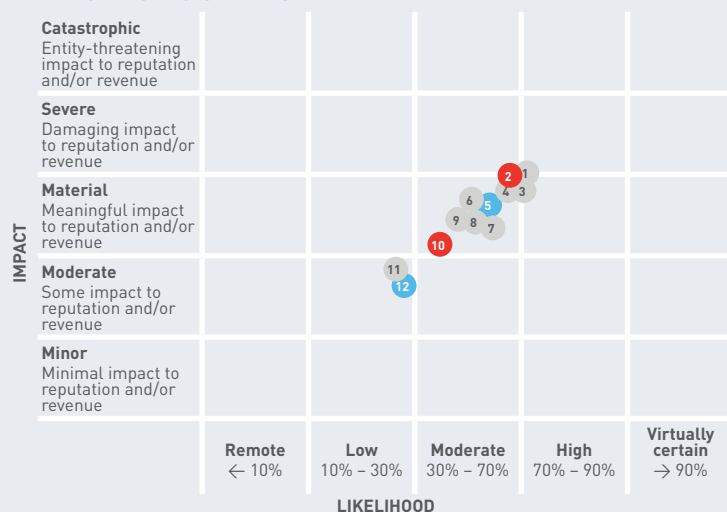
As the group undergoes substantial change and refocus, our top risks have evolved as well. A summary of these risks is shown in the diagram below. Our key risks within each value driver, and the actions we take to mitigate their effects, are

detailed in each of the relevant performance sections.

Throughout the year, we have seen a steady reduction in the residual risk ratings of all risks through the implementation of efficient and effective mitigation strategies.

Notable highlights from the 2016 risk assessment include a significant decrease in the high debt levels, disposal of discontinued operations, and reduction in reputational risk. Due to the restructuring of the group we have seen a slight increase in the human capital risk, which we are currently addressing. The Altech Autopage disposal, labour unrest and network risks have been fully mitigated.

## ALTRON GROUP RISK HEAT MAP



		Page reference
1	Disposal of discontinued operations	34
2	Human capital	40
3	Altron growth profile	34
4	Broad margin pressure	34
5	Reputational risk	54
6	Effectiveness of sales function	54
7	Threat of international competition/disintermediation	49
8	Commoditisation of IT products and services	49
9	Inappropriate or ineffective cyber security	54
10	Radical economic transformation	40
11	Customer concentration risk	54
12	Debt levels	34

● INCREASING TREND ● CONSTANT TREND ● DECREASING TREND

## LOOKING AHEAD

The new structures and standardised processes have streamlined risk reporting and management across the group. Going into 2018 our focus is on further embedding this structure into each of the businesses, and ensuring compliance and consistent application of the relevant principles. We also intend to enhance the governance processes and compliance lines as we look to integrate governance, risk, compliance and sustainability functions (GRCS) through the creation of a group-wide GRCS foundation. The immediate focus areas within this platform will be information governance and compliance.

It is critical to the value proposition of the group, and to ensuring proper integration of management processes, that our information governance structures are firmly in place. We therefore aim to ensure that the new processes that we are implementing provide us with relevant and timely information so that we can monitor the risks facing the group and take swift action where required. This, in turn, will assist the organisation to increase its ability to make well-informed decisions and react rapidly to risks and opportunities, both in the short and long term. The GRCS platform will gradually be implemented over the next 24 months and we anticipate that the benefits and efficiencies to the group created through this foundation will be significant.

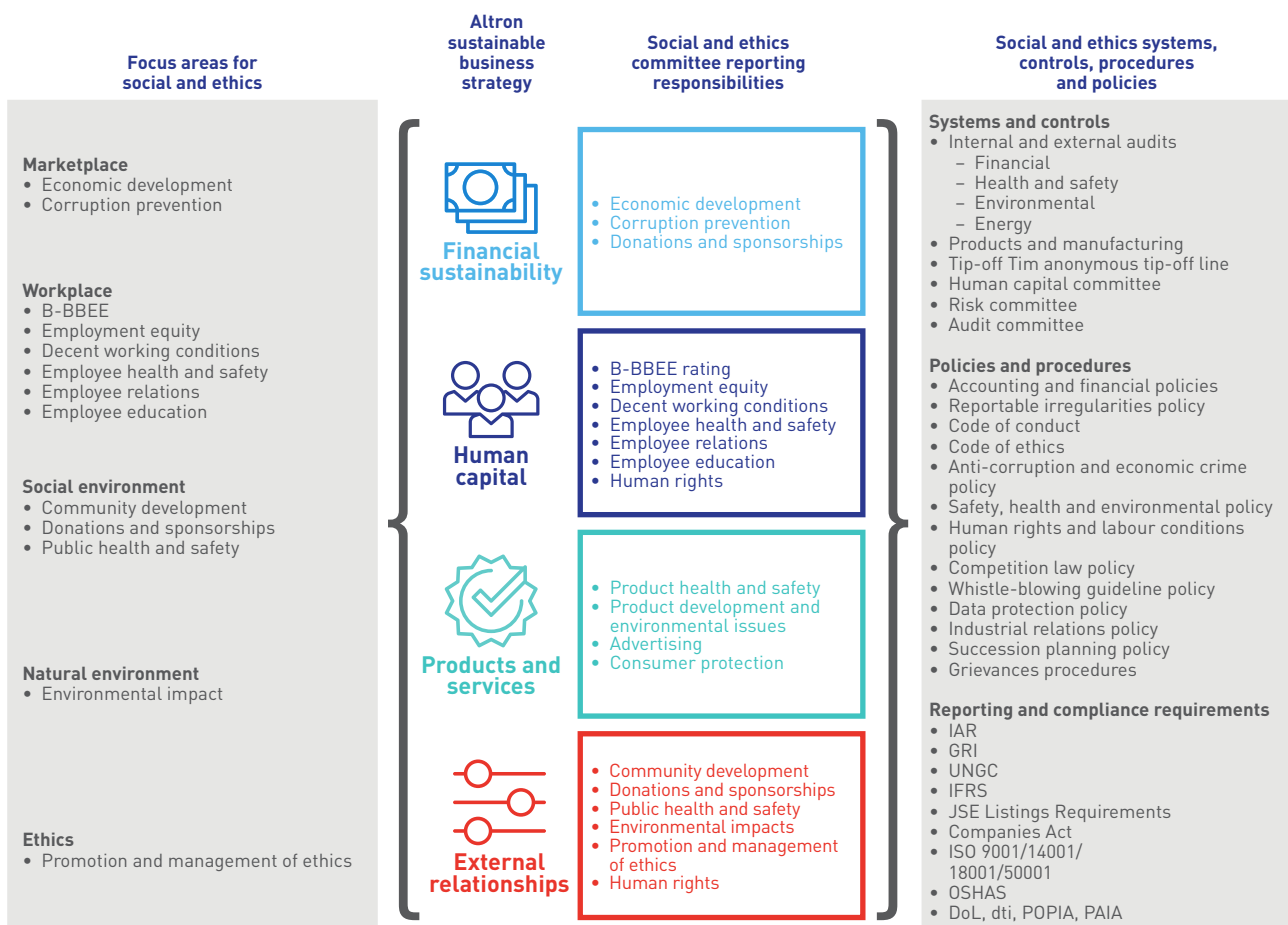


# ETHICS REVIEW

**Conducting business ethically and protecting against fraud and corruption is an important part of how we earn and preserve the trust of our stakeholders. All businesses in South Africa are to some extent exposed to bribery, fraud, corruption and other unethical behaviour, and Altron is no exception. As such, we ensure that we conduct our business according to the strictest ethical code and do our utmost to create a safe and transparent working environment.**

The Altron board, together with the chief executive (CE), is responsible for the ethical culture of the group, with support and oversight provided by the group social and ethics committee (SEC).

In May 2016 our SEC approved a new group ethics framework, which is aligned with our mission, vision and values. This framework is depicted in the diagram below and illustrates the flow of actions based on various aspects that influence the agenda of the social and ethics committee. The final outcome is viewed through the lens of our value drivers and material issues defined through our sustainable business strategy.



Altron, its businesses and its employees are guided by the Altron Code of Ethics and Corporate Code of Conduct, which all employees are required to adhere to. An abridged version of these is included in all suppliers' contracts and terms and conditions, and service and service providers are expected to abide by the same level of ethics that we uphold in our own operations. The code of ethics is also available to employees on the group's dedicated ethics website and the company website. An annual declaration is signed by all senior employees indicating their adherence to and compliance with Altron group policies. In addition, we regularly feature topics related to ethics in company publications and periodic ethics competitions to create awareness across the group.

The group addresses issues of corruption through collective action. Locally, we are a member of Business Leadership South Africa (BLSA). Internationally, we belong to *World Without Corruption*, an international initiative to fight corruption, and are a signatory to the UN Global Compact. Through our involvement with these groups, we commit to work against corruption in all its forms, including extortion and bribery.

No new developments with regard to the Aberdare Cables investigation into alleged cartel conduct have arisen. We await

the Competition Commission's conclusion on the matter with the other affected parties and we continue to fully comply with the Commission's requirements as set out in the conditional immunity agreement, and do not anticipate incurring any fines or penalties.

The group did not incur any fines at group level during the year, nor were any material fines incurred by any subsidiaries.

## WHISTLE-BLOWING

Our whistle-blowing guidelines policy outlines the procedures for reporting suspected instances of corruption and ensures that employees are not unfairly penalised for coming forward.

Altron subscribes to "Tip-offs Anonymous", an independently run whistle-blowing service that enables employees to report illegal actions and ethical misconduct. Tip-offs can also be submitted via phone, fax and e-mail. All tip-offs are actively investigated, followed up and resolved by the internal audit department, which allocates the matter for investigation where appropriate. In 2017 we received 22 tip-offs (2016: 26). Of these, 90% appeared to be either false or no evidence could be found to substantiate the claims. In the remaining cases the majority were HR related. The breakdown of cases is as follows:

HR related	9
Possible criminal activities	6
Unethical behaviour	4
Sexual harassment	1
Fraud	1
Safety	1

Altron's ethics office also has a secure e-mail address that employees can use to report unethical behaviour or to seek advice and guidance on ethical dilemmas. This e-mail address is only accessible to the chief ethics officer.





**FINANCIAL  
SUSTAINABILITY**  
page 32

**HUMAN  
CAPITAL**  
page 38

**PRODUCTS AND  
SERVICES**  
page 47

**EXTERNAL  
RELATIONSHIPS**  
page 52

# OUR PERFORMANCE

# FINANCIAL SUSTAINABILITY

## HIGHLIGHTS

- EBITDA more than doubled to R840 million
- Credible performance from continuing operations
- Disposal processes to date have reduced debt by almost 50% from peak borrowing levels
- Exceptional performance from Arrow Altech Distribution (AAD), which increased its market share and expanded into new lines of business

## CHALLENGES

- Difficulties in finalising disposals of non-core assets, most particularly Altech Multimedia and Powertech Transformers
- Renewed levels of uncertainty in the local economy provides an obstacle to organic growth
- EBITDA losses in Altech Autopage were higher than expected due to increased bad debt

## PERFORMANCE SUMMARY

	GROUP			ALTRON TMT			ALTRON POWER		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Revenue (Rm)	19 717	26 592	27 623	15 605	19 728	19 512	4 601	7 185	8 288
EBITDA (Rm)	840	376	1 383	1 018	725	1 358	(67)	(156)	220
EBITDA margin (%)	4,3	1,4	5,0	6,5	3,7	7,0	(1,5)	(2,2)	2,7
HEPS (cents)	71,0	(145,0)	93,8	-	-	-	-	-	-
Return on capital employed (%)	14,5	(1,2)	10,9	-	-	-	-	-	-
Net borrowings (Rm)	1 932	3 435	3 534	-	-	-	-	-	-
Net asset value of group held for sale (Rm)	620	2 938	n/a	-	-	-	-	-	-

## MATERIAL ISSUES

The group continues to identify two core material issues related to financial sustainability, namely profitable growth, and capital and cost-efficiencies. In 2017, as in 2016, we have also managed and dealt with a third material issue: rationalising and refocusing the business, as creating a leaner operation will create both efficiencies and drive profitable growth.

While much progress has been made in rationalising and refocusing the business over the last year, this remains a critical priority as this process will continue to distract the group from addressing the two primary issues until it is resolved. However, we continue to view this third material issue as temporary in nature and likely to fall away once the strategic repositioning of the group has been achieved.



## OUR APPROACH

Altron has been relatively short-term focused over the last 18 months, implementing our strategy of refocusing the group into the ICT sector. Our priorities have been to find incremental organic growth opportunities and maintain stability in our core operations. In the non-core operations the focus has been on running disposal processes while trying to improve the performance of these businesses – many of which were in very difficult positions.

Given the uncomfortably high borrowings on the group's balance sheet at the end of the 2016 financial year, during 2017 we also continued to emphasise cash flow management in order to reassure all of our stakeholders that appropriate progress was being made on reducing the borrowings to sustainable levels in the shortest possible period of time.

## FEEDBACK ON 2016/17 COMMITMENTS

	1	2	3
COMMITMENT	Drive profitable growth through organic and inorganic growth	Disposal of non-core assets	Increase cost savings and efficiency through consolidation and stabilisation of our shared services structures
FEEDBACK	<p>The business has remained capital constrained over the last financial year and so we have been unable to look at any acquisitive growth opportunities. Organic growth has been mixed across the operations given the ebbs and flows of the local economy and contractual cycles. Our efforts to increase cross-selling within the group have achieved some success to date, but this remains a key focus area.</p>	<p>While good progress has been made on disposing of the non-core operations, it has taken longer than expected and we have seen an erosion of our expectations with regard to proceeds received. While the Altech Autopage and Powertech Cables group disposals released substantial capital from the group, there remains approximately R620 million of capital to be realised through the process received.</p> <p>Progress has been particularly difficult with regard to Altech Multimedia and Powertech Transformers. While much of the expected benefits of the prior year's efforts in this area have materialised, the local economic conditions combined with the unique ongoing challenges internal to each non-core business, have made the disposal process very difficult.</p>	<p>Head office costs reduced in line with expectations following the rationalisation of the group during the prior year. We anticipate that the corporate restructuring that was announced post year-end will result in a further stepped change in head office costs, once all associated once-off costs have been finalised.</p> <p>Our shared services structures have undergone a year of consolidation and have further reduced costs in line with expectations. The continued evolution in this direction will be pursued with renewed vigour – as underscored by the recently announced appointment of a dedicated executive to drive implementation through the rest of the group.</p>

## FINANCIAL SUSTAINABILITY | Continued

## KEY RISKS

## RISKS

- Disposal of discontinued operations

- Growth profile

- Broad margin pressure

- Debt levels

## KEY MITIGATION STEPS

- Continue to negotiate with third parties to ensure that maximum value is obtained as well as maintaining and monitoring capital utilisation

- Identification of and investment into new growth areas

- Continuous re-evaluation of businesses to ensure alternative lines of business and expansion into new markets

- Drive cost-efficiencies throughout all operations as this is critical to preserving profitability levels in the current economic climate

- Continuous management and maintenance of strict control over capital expenditure

- Maintaining the established capital and cost disciplines

## PROFITABLE GROWTH

## Business context

Profitable growth is critical for long-term financial sustainability. Over the last year there has been improvement in the group's overall performance and a return to profitability at a headline earnings level.

We have continued to split the group's income statement between continuing (core) and discontinued (non-core) operations, which shows that the core operations have delivered some, albeit muted, profitable growth at an operational level, while the non-core operations have seen a significant reduction in losses.

We have previously indicated that, until the non-core operations are disposed of and the balance sheet returns to sustainable debt levels, acquisitive growth will not be possible. In addition, given the challenges currently facing the local economy, there is

limited opportunity for meaningful growth. However, the recent equity injection of R400 million from Value Capital Partners (VCP) post year-end could see an acceleration of Altron's growth opportunities. We anticipate a particular focus on offshore opportunities to diversify the portfolio away from its significant South African exposure.

## Our performance

*Given the disparity between the core and non-core businesses within the group, this section will focus on the performance of the core operations. Non-core operations will be addressed under the rationalisation issue, below.*

Revenue from Altron's core operations has reduced by 3% on the face of the income statement. However, two factors mask the underlying performance of the group: the closure of NOR Paper within

the Bytes Document Solutions (BDS) business and the loss of an airtime distribution contract within Altech Autopage. If these two factors are excluded, revenue grew by 6,5% to R13,3 billion.

At an EBITDA level the performance has not been as positive, but remains relatively robust. The improvement in EBITDA is largely attributable to significant central cost reductions (excluding the two factors referred to above). There has been some divergence between the IT business units, which showed a decrease in EBITDA, and the telecommunications businesses, which generally saw an improvement in profitability.

In the IT businesses the decline was largely caused by the loss of long-standing contracts in BDS and Bytes Managed Solutions (BMS) at the end of the previous year. Bytes Secure Transaction Solutions (BSTS) continued its

good track record of growth, as did BTG UK, though the effect of this was reduced by the rand being on average 7% stronger against the British pound (GBP) during the last financial year. The UK operations currently account for 47% of the IT business's revenue and 27% of its EBITDA, and 32% and 18% of the core operations' revenue and EBITDA, respectively.

The improvement in performance of the telecommunications and multimedia businesses was due to the recovery of Altech Netstar after a disappointing prior year; good growth from Altech Radio Holdings (ARH); and an exceptional performance from Arrow Altech Distribution (AAD). Altech Netstar's improved performance was the result of better retentions in the subscriber base and good performance from Pinpoint Communications in Australia. ARH's commencement of its City of Tshwane project improved that division's results, while AAD significantly increased its market share and expanded into new lines of business. In contrast, Bytes System Integration (BSI) was an area of disappointment, given the high expectations of the business at the beginning of the financial year.

At a headline earnings per share level the core operations recorded a 10% reduction, though this was due to higher interest costs. This was caused by a combination of an increase in the cost of borrowings, as well as the reduced expectations around disposal proceeds from the non-core operations, which increased the interest allocated into the core operations.

## CAPITAL COST AND EFFICIENCIES

### Business context

Many of the issues faced by Altron in recent years are attributable to poor capital allocation decisions. The importance of improving the controls around capital allocations has therefore been identified as a key issue for the group. Furthermore, as we look to reinvest in the core businesses it is critical that capital is allocated carefully and appropriately.

Cost-efficiencies are critical in any business, but particularly in the current operating climate where the group is facing a highly competitive environment, rapid commoditisation of goods and services, and low economic growth. In addition, the transition of the group to a much smaller, though more profitable, business will require a lower running cost base.

### Our performance

While we have not progressed to the extent we had hoped with our capital cost and efficiency initiatives, we have seen a significant improvement in both these metrics in the current year, albeit off a low base. Nevertheless, there remains work to be done to complete the initiatives we started in these areas during FY2016, and this remains a key focus.

In respect of capital, the main progress of the last year has been the realisation of capital from various disposals, most notably those of Altech Autopage and Aberdare Cables. These disposal proceeds were all applied to reduce debt and, along with tight working capital management, have enabled the group to return to sustainable debt levels. There remains approximately

R600 million of capital tied up in the non-core operations, and releasing that capital remains a high priority.

The success of the disposal processes to date enabled the group to complete a refinancing of the entire group's debt. This was completed in February 2017. We maintain good and transparent relations with all of our funders and the relationships that have been developed through the last few years enabled this process to run smoothly. We have reduced our term funding to R2 billion with R1 billion of this positioned as a three-year bullet loan and the balance as a five-year amortising loan. The proceeds from the remaining disposals are expected to be sufficient to repay much of the bullet loan, while the amortising loan can be comfortably serviced out of expected operating cash flows. This position represents almost a 50% reduction from our peak borrowing levels.

Given the tough operating context and the pressures of the restructuring process, no acquisitions were concluded during the last financial year. We have also kept a tight rein on capital expenditure, which is notably down on prior year levels, although assisted by the various disposals. Working capital management has been very well controlled by the business units, though this is not apparent in our reported cash flow. All capital expenditure over R1 million is now controlled centrally, which has improved the group's capital control and focused attention on this aspect of capital allocation.

The reduced losses in the non-core operations have also decreased the capital required to

## FINANCIAL SUSTAINABILITY | Continued

keep these operations going while we run the disposal processes. In most instances losses have been funded through the release of working capital. The Powertech Transformers management team has managed their cash flows particularly well – to the extent that Altron was not required to inject any additional funding into that business during FY2017.

The disposal of Altech Autopage at the end of FY2016 led to an unwinding of that company's substantial negative working capital position, which resulted in material outflows from the group as the necessary creditors were settled. The result was a working capital cash outflow of approximately R600 million.

There was also deterioration in our debtors ageing in 2017, which we attributed mostly to local economic conditions. To date we have not seen an increase in bad debts; rather there appears to be a problem of timing of payments.

Most of the group's expected cost decreases materialised in

**42%**  
reduction in  
net debt levels  
year-on-year

**50%**  
reduction from peak  
borrowing levels

FY2017 following the extensive restructuring actions undertaken in the prior year. Most significant of these were the corporate cost reductions, which were broadly in line with the expected R120 million, despite a number of once-off costs. In the non-core businesses the improved performance of Altech Multimedia and Powertech Transformers reflected those divisions' cost reduction efforts in the prior year.

We continue to drive cost-efficiencies throughout all operations as this is critical to preserving profitability levels in the current economic climate. However, these efforts are largely incremental, rather than larger "step" changes. The one exception to this is a new cost reduction effort in the Altron head office following the recent simplification of the corporate structures by our new chief executive, post year-end. This will be completed during the first half of the new financial year. The process entails once-off costs and so the benefits are expected to be felt only in the 2019 financial year.

Going into 2018 we expect to renew our strategy of implementing shared services across the core operations. There was further reduction in this cost base in 2017 – which was in line with expectations in what has been a year of consolidation. Going forward, and following the appointment of a dedicated executive, we will drive this initiative throughout the group.

The combination of the group's various cost and efficiency efforts has resulted in a lower cost base for the group and a significantly improved net debt position, year-on-year, of just over R1,9 billion. Provided that the proceeds from the remaining non-

core businesses materialise as expected, we anticipate a further material reduction in debt levels in the year ahead.

## RATIONALISE AND REFOCUS THE BUSINESS

### Business context

As we highlighted last year, it is critical for the group to complete the process of refocusing on the ICT businesses and releasing capital from the remaining non-core operations in order to deleverage to sustainable levels, thereby freeing up capital for investment into the core operations.

When that process is completed, it will also release significant management time and resources from the restructuring process, enabling concentrated focus on delivering profitable growth.

### Our performance

The performance of the non-core operations was much improved in FY2017. Although most continued to perform at a loss, there was an overall reduction of close to 80% in EBITDA losses.

Powertech in particular saw a significant reduction in its EBITDA losses, primarily as a result of lower losses in the Powertech Transformers business. This business benefited during the year from increased activity levels, albeit at poor margins, as well as from the cost reduction initiatives instituted the previous year. Powertech Batteries had a good year, increasing its EBITDA by approximately 3% in a tough market. Its improved margins were driven by lower input costs.

The performance of both Powertech Switchgear and Swanib Cables, on the other hand, deteriorated. The former suffered from delays in tender awards and the latter was affected by

economic conditions in Namibia. Powertech System Integrators (PTSI) also continued to endure large declines in revenue. This operation was also subject to a right-sizing exercise ahead of its disposal, which is anticipated to occur in the early part of FY2018.

Generally, the Powertech operations experienced many of the same challenges of previous years, although there has been some encouraging movement in recent months, such as increased Eskom activity. Overall, despite performance improvements, the losses generated in the non-core operations – together with a number of substantial impairments – once again resulted in a drag on the results generated from the continuing operations.

The Altech non-core operations improved year-on-year, although the EBITDA losses in Altech Autopage were higher than expected. Operationally, Altech Autopage's losses have reduced to expected levels, which are linked to the collection of its remaining debtors, but these collections have been lower than anticipated and we have had to increase the level of provisions. These losses should be significantly lower in the coming year with the bulk of remaining debtors collected in the next 12 months.

Altech Multimedia delivered a much-improved performance, returning to EBITDA profits after the right-sizing process of the business in 2016. Factory volumes were slightly higher than expected as the operation moved into adjacencies such as television sets, and the company's relationship with its main customer, MultiChoice, remains strong. The volumes anticipated from the digital terrestrial television (DTT) initiative failed to

materialise, but were made up in other areas of the business.

This last financial year saw the conclusion of the disposal of Aberdare Cables and its international operations, as well as the disposals of Strike Technologies, Technology Integrated Solutions (TIS) and the group's Menlyn property. There are two further transactions currently in competition approval process: the disposal of Powertech Batteries and Powertech System Integrators (PTSI). We hope to conclude these sales soon. Unfortunately, neither of these two disposals has realised the quantum originally anticipated.

The group now remains with seven non-core businesses to dispose of to complete its rationalisation process. The most significant of these are Altech Multimedia and Powertech Transformers. Both of these operations have been engaged in extended negotiations for many months. The recent increase in orders from Eskom for Powertech Transformers' products, has renewed interest in that company.

As in 2016, Altron was required to write down the carrying value of the non-core operations to the latest estimates. Various delays in disposals have compounded the difficulties inherent in this.

## LOOKING AHEAD

The group's core operations have shown a solid track record of delivering either stable or growing profits over the last few years, despite various challenges. Given their critical mass and strong market position, we believe that the core business remains well placed to grow organically.

The introduction of R400 million of equity capital by Value Capital Partners (VCP) will significantly improve the strength of the balance sheet and should enable the group to recommence acquisitions during the 2018 financial year. We also expect that the experience and input of VCP management will assist in refining and directing Altron's investment processes.

In addition, post year-end, the group's new chief executive initiated a full review of the core business and a streamlining of the group's executive structure. These processes will introduce new thinking and identify new areas of growth.

We therefore expect to be able to report some encouraging growth in the year ahead as we are able to focus more on the core operations. However, it will be important to remain cognisant of renewed levels of uncertainty in the local economy, where the majority of Altron's business is based, which may temper some of our efforts in returning the group to profitable growth. We will need to make an increased effort to cross-sell the group's goods and services into our customer base, both locally and into the UK operations.

Going forward the group will maintain the capital and cost disciplines that have been established in past years and complete the process of rationalising and refocusing the group through the disposal of the non-core operations. If all the disposal processes can be successfully concluded within the 2018 financial year, which we believe is a reasonable expectation, we will be able to remove that temporary material issue from the next integrated annual report.



# HUMAN CAPITAL

## HIGHLIGHTS

- Morale has remained strong amidst a difficult period of transition
- Over 200 long-service awards made to loyal employees, representing 4 130 years of working with Altron
- Following the success of our community ICT training centre in KwaMashu, KwaZulu-Natal, our CSI committee opened another similar centre in Soweto, Gauteng

## CHALLENGES

- Maintaining our empowerment status under the new B-BBEE ICT Sector Code
- Transformation at senior management levels and market perceptions of management profile
- Scarcity of core business talent and industry-specific skills

## PERFORMANCE SUMMARY

	2017: total	Core	Non- core	2016: total	Core	Non- core	2015
Total permanent employees	10 219	8 206	2 013	12 676	8 362	4 314	12 049
Corporate	57	57	–	40	40	–	117
Altron TMT	8 445	8 149	296	8 709	8 322	387	7 712
Altron Power	1 717	–	1 717	3 927	–	3 927	4 220

	2017	2016	2015
Group employee turnover rate (%)	1,90	1,64	2,24
Total training spend in SA (Rm)	87,5	86,5	110,3
Group B-BBEE contribution level (ICT Charter)	2	2	2
Total corporate social investment (Rm)	8,4	10,4	10,7

## MATERIAL ISSUES

Altron is founded on its people, who are the driving force behind our success as a group. As we continue to streamline our operations, our human capital remains an important priority.

In 2017 Altron's goal in this respect remained unchanged: to build and maintain a diverse, loyal, performance-driven workforce that is innovative and effective and which reflects Altron's collaborative values and culture. Our three material focus areas within human capital address these key issues: transformation, human resources and company culture.

## OUR APPROACH

We value superior intellectual capital and we work to attract and retain talented, skilled employees from diverse backgrounds. In return we prioritise our employees' satisfaction and well-being and support their ongoing learning and professional development. In this way we aim to promote a stable, effective workforce that is able to drive the future growth of the group.

## STAKEHOLDER ENGAGEMENT

Regular and candid engagement with our employees is critical to our ability to create and maintain a collaborative company culture and to ensure the happiness of our workforce. This has been particularly important during the recent times of challenge and change faced by the group, where job security has been a key concern amongst our employees. As our most important asset, our employees' feedback is encouraged and carefully considered in how we operate.

We engage with our employees through a variety of events, internal newsletters and publications and communiqués. These include regular letters from the chief executive, intranet communications and our quarterly internal group magazine, *Perspective*, which provides regular updates on news and business and individual achievements of both companies and employees throughout the group. We use forums such as staff meetings and events, road shows and presentations to receive feedback.

Altron also subscribes to "Tip-offs Anonymous", an independently run service that enables employees to report illegal actions and ethical misconduct (see "Ethics Review" on page 28 for more detail). We have found that this provides an important channel for employees to freely express a broad range of recommendations and concerns regarding workplace and management.

## FEEDBACK ON 2016/17 COMMITMENTS

	1	2	3
COMMITMENT	Continue to focus on succession planning, including the promotion of black employees into management positions and filling roles with qualified black candidates where possible.	Divisional employee inductions will be complemented by a group induction programme that includes an introduction to the group's vision and values.	Continue to investigate the possibility of introducing a relevant holistic employee wellness programme.
FEEDBACK	Limited success as low turnover at senior levels created few opportunities for promoting or hiring black executive talent. However, the formation of the new Altron group selection committee will assist in addressing this issue in the longer term.	This has been achieved. We are in the final stages of implementing a standardised online group induction programme.	In 2017, as part of our group centralisation and shared services processes, we implemented ICAS throughout the group – a standardised employee wellness and benefits system.

## HUMAN CAPITAL | Continued

## KEY RISKS

## RISKS

- The pre-existing shortage of relevant skills within the industries in which we operate as well as the retention of current skilled employees
- Transformation, particularly at senior management levels, as well as lack of transparency relating to transformation initiatives, creating incorrect market perceptions
- Retaining current B-BBEE levels to ensure competitive advantage

## KEY MITIGATION STEPS

- Bursary programme and targeted skills development initiatives to grow and maintain talent pipelines
- As positions become available within the group we source and promote talented black candidates where possible
- The new Altron group selection committee will monitor and manage a strategic succession planning replacement strategy
- We have analysed our group operations in reference to the new ICT Sector Code requirements and have prioritised group spend and resource allocation to work towards regaining a competitive empowerment level across our operations

## TRANSFORMATION

## Business context

For Altron, transformation is about more than meeting B-BBEE regulatory requirements. We believe in driving empowerment, but we also see diversity as a catalyst for innovation and an important competitive value proposition. We are therefore committed to building a diverse workforce that reflects the diversity of our clients, our partners and society. This means bringing together a mix of skills, experience, culture, gender, age and race. We therefore take a deliberate, strategic approach to recruiting, developing, retaining and promoting black talent at all levels.

Pursuing our transformation agenda has been challenging this year. During November 2016 the amended B-BBEE Code of Good Practice for the Information and Communication Technology (ICT) sector came into force (the "ICT Sector Code"), requiring immediate compliance.

As at the time of printing of this report we continue to trade on our valid certificates issued before the gazetting of the amended sector codes. However, the impacts of the new code are already felt throughout the group. This new regulatory environment, in addition to the difficult period through which the group has come as a business, will pose a significant challenge to achieving our transformation targets and retaining our existing rating going forward.

## Our performance

We are proud of our transformation performance this year and, with Level 2 B-BBEE ratings across the group, we consider ourselves to be a leader in the industry. However, like our peers within the industry, the new ICT Sector Code will negatively affect our performance and our ratings, and will result in significant additional expense for the group in order to maintain a competitive empowerment level.

At a B-BBEE Level 2 against the previous ICT Sector Code, we were confident in tendering for contracts. At a lower empowerment level, however, there are many more competitors in the marketplace. Altron – like all of its peers in the ICT industry – therefore faces enormous pressure to address the new requirements quickly, in order to retain its competitive advantage.

# B-BBEE Level 2

## B-BBEE

Altron's B-BBEE status is an upward consolidation of the B-BBEE status of each of its operating subsidiaries and divisions. Each is independently responsible for the results of their certification, which is assessed and verified in June each year.

In June 2016 Altron was rated Level 2 across the group, with all operations performing as expected. At the time of publishing this report the 2017 B-BBEE assessment is under way, with results expected in June 2017. Due to the increased requirements of the new ICT Sector Code we anticipate that – as will be the case for most of our peers – our group score will change to a Level 4.

In response to the code we have analysed each of our operations in reference to the requirements of the new codes to establish where and how we can regain points on the scorecard. We anticipate that some businesses may attain a Level 4, or even a Level 3. Across the group, we are determined to achieve at minimum a Level 4 and we are comfortable that this will be achieved.

In 2017 the group's performance against the five scorecard elements was as follows:

### Ownership

Our main equity partners in our core operations are Southern Palace Group, which holds a 25% + 1 share of Altech Radio Holdings; Power Matla, which holds a 25% + 1 share of Altech UEC South Africa; and Thebe Identity Investment Corporation, which holds a 25% + 1 share of Altech Netstar.

### Management control and employment equity

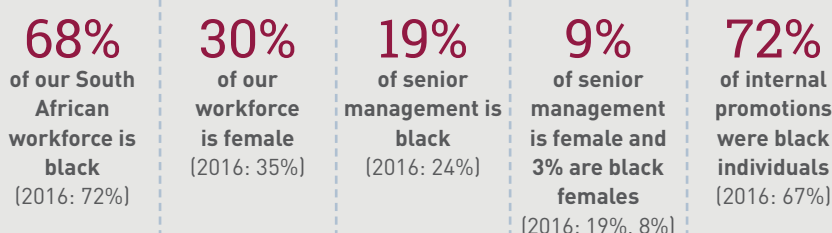
Black representation at top and senior levels of management remains a challenge for Altron and it is an area in which we recognise a need for improvement. In our interactions with customers, particularly government and state-owned enterprises (SOEs), it is particularly important that the go-to-market management profile of the group is sufficiently diverse, reflecting a range of senior black and female employees, to ensure future business opportunities with those entities that rely on our empowerment ratings.

While we are determined to drive transformation at management levels and throughout the group, there are key factors that affect our ability to make short-term, meaningful change. Most significant of these is that

turnover at Altron is very low, particularly at senior levels. While we are proud of our employees' long-term commitment to Altron, this means that there are few opportunities to fill vacancies with black talent.

Another factor that has remained relevant in 2017 is the limited growth or downscaling of many of our operations, which means that we are unable to bring in many new employees. As positions do become available within the group, however, we source and promote black candidates where possible.

We are also cognisant that our transformation imperative must be implemented strategically, with care and balance, as we must retain appropriate skills and experience at our top levels. To this end, in October 2016, we launched an Altron group selection committee, chaired by the chief executive. This task team has identified the top 125 management-level employees throughout the group and will monitor and manage succession planning and employment within those positions centrally and strategically over the next five years. We envisage that this strategic replacement strategy will, in time, result in a solid and sustainable top management level at Altron that is diverse in skills, age, gender and race.





## HUMAN CAPITAL | Continued

*Skills development*

*Note that this section refers to skills development for purposes of B-BBEE. See more on Altron's broader approach to skills development and ongoing training initiatives for employees under "Core skills and talent management" on page 44.*

We are currently one of the strongest performers in the industry in terms of our investment into skills development for empowerment and our learnership programmes. In 2017 we spent R87,5 million on skills development across the group (2016: R86,5 million). R73,2 million (84%; 2016: 83%) was spent on training and developing black talent.

Since our decision to exit the manufacturing sector we are now predominantly a services-based group and salaries are our biggest expenditure. This makes a payroll-linked spend target, which is the measure against which B-BBEE points are allocated in this scorecard element, particularly burdensome for Altron. Our current spend renders us compliant within the new ICT Sector Code, but we remain under pressure to increase our spend and take additional measures to achieve our targeted B-BBEE points under the new code.

Bytes People Solutions (BPS) offers external training and learnerships to the ICT industry. BPS is both well placed to absorb learners into employment within its own operations, as required by the ICT Sector Code, and maintains a pipeline of skilled and qualified candidates to fill entry-level positions throughout the group. Where surplus learners exist they are quickly absorbed by other customers or suppliers of the group due to the high demand for ICT skills.

*Enterprise and supplier development*

Procurement is a prioritised area in the new ICT Sector Code and one that remains a challenge for Altron as the group procures the majority of its products through its international strategic partners. Locally we continue to channel our procurement spend to suppliers whose empowerment score is a minimum of Level 4, and in this respect we are satisfied with our performance. We recognise that room for improvement exists, however, and we aim to focus on encouraging and supporting black enterprises.

*Socio-economic development*

Altron's socio-economic development programmes have always been a highlight of our performance. Our focus in this area is creating and running ICT-based skills development programmes for unemployed people. Our community investment is an important demonstration of our company values and our commitment as a group to building a better South Africa for all.

Previously, our corporate social investment (CSI) was operated at a business level and supported by a group CSI policy. In 2017 we established a committee within Altron TMT, which administers the entire group's CSI spending within one central fund. This allows us to identify and invest in larger projects with higher impact potential and enables us to better monitor and measure the outcomes and impacts of our investments.

This year our multimedia ICT training centre in KwaMashu, KwaZulu-Natal has continued to perform exceptionally well in its fifth year of operation. Each year the centre accepts 50 unemployed

youths from the surrounding areas into a 12-month full-time learnership programme, which provides training in end-user computer and ICT skills. Altron funds the cost of the training and the operation of the centres, as well as a stipend for each learner. Every year more than 95% of the programme graduates are employed – either absorbed into Altron's own operations, or into external roles within the neighbouring industry. This year 100% of our graduates found employment with a major retailer.

Building on our success, in October 2016 we established a second training centre based on the same model, in Soweto, Gauteng. We had planned to install a centre in Alexandra, but relocated to Soweto following a land-claim eviction order in June 2016, which was disappointing. Nevertheless, our new centre, which is based in the Soweto Empowerment Zone at the Old Putco Building in Diepkloof, has been operational since October 2016 and we look forward to another 50 graduates completing our programme in the latter part of 2017.

**Altron Group**

CSI expenditure:

**R8,4 million\***  
(2016: R10,4 million)

\* The reduction in group CSI spend is the result of significantly reduced expenditure by non-core operations.

In each of our centres we partner with PROTEC (Programme for Technological Careers), a leading non-profit organisation that empowers youth with educational support in mathematics, science, technology, engineering and life skills. Bytes People Solutions presents the accredited IT learnership programme. PROTEC runs a library within the centres, attached to each of Altron's computerised training rooms, and offers maths and science tuition to school learners. Within Altron we run an ongoing book drive throughout the group for employees to contribute books to the centre libraries, which enables our staff to be a part of our community investment.

As part of our drive to further establish these centres as community training hubs, in 2017 we installed a fully equipped science laboratory in the KwaMashu centre, to assist in PROTEC's science lessons. A full-time science teacher has been appointed and the laboratory has been operational since January 2017.

Our monitoring and evaluation has shown that our centres are achieving the desired results. The PROTEC learners' results have improved significantly and the youths that complete our ICT training programmes are consistently employed. Between our KwaMashu learnership programme and the Soweto Empowerment Zone, Altron will be placing 100 graduates per year into the formal economy. Going into 2018 we look forward to seeing the successes of our new expansions, to building on our existing and newly formed strategic community partnerships, and to continuing to invest in developing skills for the future.

## HUMAN RESOURCES

### Business context

Altron operates in a scarce skills environment, which is currently being exacerbated by difficult economic conditions. In addition, as we focus exclusively on the technology side of our business, developing and nurturing ICT and technology-related core skills and creating skilled talent pipelines from which we can draw is more critical than ever. This is not only fundamental to our long-term human capital strategy; it is also our responsibility as an active corporate citizen (see our skills development performance in relation to our B-BBEE targets on page 42).

Altron also faces stiff competition in the "battle for talent". Young, skilled professionals in the ICT industries are seeking excitement and creativity, and in recruiting this new generation, Altron competes with far bigger, international companies that can offer unparalleled benefits and incentives. We are therefore constantly looking for ways to attract talented employees and work actively to nurture our internal talent pipelines.

As we complete a period of transition, it is important that we continue to manage our workforce in a manner that inspires high performance and captures employee loyalty. Happy, engaged employees are productive employees.

### Our performance

At year-end Altron's continuing operations employed 10 219 permanent staff. 8 206 (2016: 8 326) of these employees are within our core operations, whilst the remaining 2 013 (2016: 4 314) employees are within our non-core operations.

Our overall headcount reduced this year as a result of the closure, sale and downsizing of certain operations, particularly Powertech Cables; closure of offshore operations within Altech Multimedia; and the closure of Altech Autopage, although some of the employees of the latter were successfully transferred to other divisions within the group (see "Reducing our workforce" on page 46).

### Total permanent employee headcount by group company (core and non-core combined)

	2017 total	SA	Offshore	2016	2015	2014
Corporate	57	57	–	40	117	79
Altron TMT	8 445	8 025	420	8 709	7 712	8 247
Altron Power	1 717	1 701	16	3 927	4 220	4 578
Total	10 219	9 783	436	12 676	12 049	12 904

Our group-level shared services model, which was implemented last year, has effectively centralised the human capital management function at a group level. As part of the centralisation process we have moved our systems onto a single human resources management system (HRMS), which will provide an efficient group-wide platform for human capital management and payroll.

## HUMAN CAPITAL | Continued

*Attraction and retention of talent*

In 2017, following the closure of Altech Autopage, we had to abide by certain conditions set by the Competition Commission. This required us, within the 12-month period following the sale, to place first those employees affected by the closure elsewhere within the group before looking to recruit external candidates. That mandatory period has now ended, so we can begin looking forward again to drawing in new outside talent.

Our bursary programme remains an important part of our future talent pipeline, assisting the group to fulfil its requirements for critical scarce skills, such as technical and engineering skills, sales and marketing skills, innovation skills, key accounts expertise and value-adding human resource support. In 2017 we awarded eight additional bursaries, bringing our total active bursars for the year to date to 22.

Upon graduating, recipients are placed within the group on a year-for-year work-back agreement. This enables them to gain practical experience in the technology industry and provides Altron with a constant

stream of trained, talented young employees.

Our group turnover rate remained very low at 1,9% (2016: 1,64%), with a marginal year-on-year increase due to organisational changes. This represents a strong record for the group, particularly in the technology space where turnover rates tend to be relatively high, and during a period of restructure.

As part of attracting and retaining our key talent, we guarantee each of our people a generous remuneration package. We aim to compensate general employees at the 50th percentile, and executives and specialist-skills employees between the 50th and 75th percentiles for our sector. We make adjustments as necessary following annual benchmarking exercises against the IT and executive salary benchmarks published by the consulting firm Deloitte. For senior management, short-term management incentives include performance-related bonuses and share incentives.

Our general salary increases are linked to CPI and take into account the industry average. In 2017 the group gave an average 6% raise to its employees.

*Core skills and talent management*

At a group level we regularly review each business's operational objectives and requirements so as to invest effectively in appropriate training and skills development initiatives to ensure that our people are well positioned to meet the swiftly changing demands of the technology industry. In 2017 our full-time permanent employees in South Africa received a total of 493 983 hours of training at an average cost of R8 944 per employee (2016: R6 820).

Altron directs most of its internal training and skills development interventions through the Bill Venter Academy, which is managed by Bytes People Solutions. This "corporate university" is part of Altron's long-term transformation and diversity strategy. The academy focuses on leadership and management skills, as well as programmes that build capacity and technical skills, which are delivered according to the current operational requirements of the business. Examples include customer services, sales enablement, project management, and scarce and specialist skills.

*A proud history of long service*

Altron is enormously proud of the group's history of long-standing relationships with our employees. Every year we make a substantial number of long-service awards to many of our loyal employees.

2017 was no exception, with over 200 awards made this year across various categories (10, 20, 30 and 40 years). Most notably, five employees received awards for 40 years of service to Altron.

In total, this year's awards represent 4 130 years of working with Altron.

## South African employees received a total of **493 983 hours** of training at an average cost of **R8 944** per employee

In 2017, 39 of our current employees (25 of whom are black) completed various training programmes through the academy, including the Certificate in Key Account Management, New Managers Development Programme, Senior Leaders Programme, Systems Engineering Programme and Management Advancement Programme. Forty-seven employees (2016: 65) graduated from the academy.

While it is critical for Altron to nurture and develop IT skills within the business, it is also important that we continue to understand and address our customers' needs in an all-inclusive way and, therefore, that we focus equally on developing leadership and management skills within the business.

To drive this aspect of our strategy, in September 2016 we launched the group's Business Development Advancement Programme (BDAP). We hired seven people under the age of 30 with a tertiary education and broad post-graduate business experience, with the intention that they will operate at the front-end of our businesses, communicating with and understanding our customers' businesses – and their customers – in a holistic way. Going forward, we intend to expand the programme to 20 young people.

Altron also runs a Young Presidents' Club for young, under-

40s managers within the group, with the aim of understanding their career aspirations and working to match those with the group's direction as a business, and enabling these young professionals themselves to invest in Altron's story. Currently the AYPC consists of 20 individuals, of whom seven are black and nine female.

### *Health, safety and wellness*

A safe, healthy, happy workforce is a productive and effective workforce. While on-the-job safety poses a much lower risk to the group following the exit of our manufacturing operations, ensuring our employees' well-being remains of utmost importance.

In 2017, as part of our group centralisation and shared services processes, we implemented a standardised employee wellness and benefits system. Every employee is now registered with ICAS (Independent Counselling and Advisory Services, a division of AXA PPP), an employee well-being programme that provides counselling, guidance, and otherwise facilitates and assists employees with their day-to-day wellness. All permanent employees are also part of a medical aid programme with access to a variety of benefits.

The number of injuries reported this year was 66, down from last year's 86. No fatalities were reported during this year.

## COMPANY CULTURE

### *Business context*

Altron remains committed to driving its "one company" culture throughout the group, which reflects its values and encourages innovation and collaboration. In turbulent times within the business it is more important than ever to unify our workforce under a shared vision and culture. However, uncertainty within our operations has made this a challenge.

### *Our performance*

Altron's goal is to create a collaborative, entrepreneurial working environment, where its employees are happy and engaged. Our 5+1 value system remains firmly in place and is driven throughout the group, from new employee inductions to executive levels. As we continue to rationalise the business, however, encouraging a united outlook among our employees has been challenging. Moving out of this period of refocus and into a new period of growth, we expect that a cohesive company culture will develop organically.

### *The Altron 5+1 way*

- 1** Customer focus
- 2** Accountability
- 3** Innovation
- 4** Results- and achievement-orientated
- 5** People focus
- +1** Collaboration

## HUMAN CAPITAL | Continued

Contributing to our one-company strategy, we are in the final stages of developing a central group induction programme that will be delivered online. This will ensure that all new employees are welcomed into the group as a whole, rather than separately into each business. This platform is expected to go live within the next reporting period.

#### *Reducing our workforce*

Closures and disposals of non-core operations have affected a number of our employees this year. Most significant of these was the disposal of Altech Autopage at the end of the 2016 financial year, the disposal of the Aberdare Cables operations within Powertech in June 2016, and the closure of NOR Paper (a division of

Bytes Document Solutions) also in June 2016.

The Powertech Cables operations were sold as going concerns, so most employees remained within those companies. Following the closure of NOR Paper, 11 employees were absorbed by the group or our channel partners and suppliers within the sector, but many exited the business. Altron was successful in redeploying 109 of its Altech Autopage employees elsewhere within the group.

Aside from ensuring the smooth transitions of our employees, the biggest challenge we now face is maintaining morale and confidence among staff in our non-core operations, who

naturally feel uncertain about their futures. As we continue to dispose of non-core operations into 2018, we will ensure that our communication with those – and our other employees – remains candid and prompt, and we will work to redeploy as many employees as possible within the group.

## LOOKING AHEAD

Transformation remains a key challenge, particularly in terms of management control and employment equity. While there is no “overnight fix” to this, we will continue investing in our mid- to long-term strategies to diversify the group. Immediately, we intend to continue to invest in skills development – a top area of focus for Altron – and to increase our commitment to supplier development. This too will take time and, like many aspects of empowerment, will be made more challenging by the new ICT Sector Codes, but we believe that we are on the right path to achieving our transformation targets.

We will continue to prioritise and to support our people – through professional development, upskilling and career guidance, as well as by ensuring their wellness and satisfaction at work. Going forward it is important that we continue to communicate with all our staff regarding our discontinued operations and to support those who are directly affected. It is also critical that we motivate and drive the human capital within our continuing operations, which, although healthy, are themselves operating under difficult market conditions.

We believe that our employees like to work for Altron: it is an exciting business, with a bright future and it is important to us that our people are an active part of our journey as a group. We will continue to prioritise our people, keeping them informed, motivated, remunerated and including them in the prospects of the business.



# PRODUCTS AND SERVICES

## HIGHLIGHTS

- Altron was honoured for its technology and innovation at the 2016 Da Vinci TT100 Business Innovation Awards Programme
- R220,5 million invested in R&D and eight patents filed
- Exciting innovations will strengthen our suite of products

## CHALLENGES

- Ensuring strategic development of new products and diversification of current product and service portfolios to align the group in targeted new markets
- Cost reductions due to margin pressures have resulted in a limitation on spending towards R&D
- Fast evolution of technology requires flexibility and adaptability and creative approaches to R&D to ensure that product offerings remain relevant

## PERFORMANCE SUMMARY

	2017	2016	2015
Number of patents filed	8	6	14
Research and development spend (Rm)	220,5	163,4	227,0

## MATERIAL ISSUES

Our focus at Altron lies in delivering relevant technologies, cost-effectively, to assist the needs of our customers on their specific outcomes – whether that is profit, efficiency or delivery of value. With our access to a wide range of technology and cutting-edge ICT solutions, from among our OEM partners as well as our own product suites, Altron is well positioned to deliver seamless, innovative end-to-end solutions to our customers and to capture opportunities for cross-selling.

This year saw our move away from the manufacturing side of our business draw closer to completion. Within the core businesses, to ensure that our offerings remain at the forefront of technology, it is critical that we are adaptive to quickly evolving technological trends and that we are ready to maximise the potential of new opportunities. Our two most material issues in this area are therefore innovation and research and development (R&D), and our product and service offerings.

## PRODUCTS AND SERVICES | Continued

### OUR APPROACH

Altron is proud of its intellectual property (IP) and encourages innovation within the business. We design and invest in products and applications throughout the group, which we constantly refresh and evolve. We protect all IP through registration of patents, designs, domain names and trademarks at a group level.

Importantly, we see partnerships as a way to leverage external IP, which enables us to offer tailor-made solutions to our customers by drawing on the research and innovation of our strategic partners in addition to our own. Altron plays to its strength in implementing and facilitating technology. This approach exposes us to a variety of creative thinking from across the globe and enables us to stay abreast of cutting-edge international developments.

Within the group we strategically invest in growing our product and service offerings both organically and inorganically, ensuring that we maintain a promising pipeline of growing businesses. This year we adopted a “back-to-basics approach”, focusing on satisfying our customers, eradicating inefficiencies and using technology to improve productivity.

### STAKEHOLDER ENGAGEMENT

Altron prides itself on its strong relationships with its customers and suppliers. We maintain multi-tiered relationships with each of our key partners, which ensures flexibility and sustainability. Ongoing engagement is a core part of Altron’s strategy in this regard, which requires that we evolve alongside our strategic partners

and that we are responsive to opportunities provided by their developments.

We have determinedly focused this year on building new partnerships and new relationships in our products and services space. A particular achievement in this regard was that Altron, through Altech Radio Holdings and Bytes Systems Integration, joined the Nokia Global Partner Programme.

Salesforce has also been added to this list of key partnerships. We will not only become a consulting partner to Salesforce but will also implement it internally. See “Strategic Partnerships” on page 57 for information on this relationship, as well as how we engage with our customers and other key external stakeholders within our value chain.

### FEEDBACK ON 2016/17 COMMITMENTS

	1	2	3
COMMITMENT	Following a white space analysis undertaken in 2016/17, we intend to align our products and services to strategic areas of importance with existing clients, filling previously underserved gaps.	Diversify into adjacent technologies within our suite of products and services. This will include taking a new approach to business, delivery and commercial models.	Continue with the roll-out of cloud-based services: all shared services applications to be housed within the cloud and continue to transition our own applications to cloud hosting.  Launch cloud-based services to our customers.
FEEDBACK	The white space analysis was undertaken as planned, and, while the implementation of the outcomes will not happen overnight, we have focused on moving or expanding our products and services portfolios into the areas found to be most strategically important.	By actively seeking new strategic partnerships with OEMs, and by continuing to invest in our own innovation, we have broadened our variety of product and service offerings. We remain alert to opportunities that enable us to make strategic “bolt-on” acquisitions to capture relevant solution adjacencies.	Altron has partnered with leading technology companies in cloud-based solutions in order to both deliver these services to customers and to move many of its own applications to the cloud.

## KEY RISKS

### RISKS

- Increase in international competition as Africa shows potential for growth and development opportunities
- As technology advances, IT products and services become commoditised, eroding the margins on these services. Low-cost and alternative solution providers have a competitive edge
- Disintermediation risk in representing large global OEMs, where those principals may go directly to the end customer

### KEY MITIGATION STEPS

- Formation of strategic international partnerships to ensure that product and service offerings remain diversified and cutting-edge
- Business divisions to review R&D spend in order to be more efficient and allow product focus
- Market entry timing and due diligence of product to be enhanced to ensure product relevance
- Enhanced local market knowledge and expertise, as well as using multiple strategic partnerships to offer a wide variety of cost-effective product and solution bouquets

## INNOVATION AND RESEARCH AND DEVELOPMENT

### Business context

Altron's TMT businesses operate in fast-paced, continually changing markets, which regularly face disruptive technological advances. We recognise the importance of ensuring that our businesses remain in a phase of growth, so we aim to keep our product and service offerings fresh. Decades of experience in remaining abreast of new trends ensures that we remain adaptive and are well positioned to respond accordingly.

Altron acts primarily as an implementer and integrator of world-class ICT solutions on behalf of our strategic technology partners, and as such we leverage the R&D and accumulated IP of these international partners. As a result our own R&D requirements tend to be limited to local technologies and integration solutions being pursued by the group.

### Our performance

We continue to invest in and evolve our internal IP, particularly in the fintech and healthtech spaces. New R&D is budgeted for on an annual basis and proposals are

considered and approved within each operation on a project-by-project basis.

This year we were particularly proud to be honoured at the Da Vinci TT100 Business Innovation Awards Programme for 2016 (TT100). Competing in the large enterprises class, the group was announced the winner for three of the four main categories, namely the MTN Award for Excellence in the Management of

Innovation, the Eskom Award for Excellence in the Management of Systems, and the Greg Tosen Award for Excellence in the Management of Technology. We were also recognised as a finalist in the Management of People category. In addition, the group also won the Blank Canvas International Award for Sustainability in the large enterprises class and the Minister of Science and Technology's Award for Overall Excellence.

### Key innovations

Altech Netstar has been in the process of a "technology revamp" for the last three years. As a result of the development of a total solution in fleet management within Altech Netstar, we are now a market leader in the technology space of vehicle tracking and fleet management, and our technology is now used as a tool of trade among our customer base. In 2017 we developed Jamming Resist™, which we expect will strengthen the Altech Netstar suite of end-to-end products.

Other key innovations within the Altron group during 2017 include a prepaid token dispensing and management platform by Altech Card Solutions and Altech NuPay's "Man-in-the-Van" debt collection solution. Bytes Systems Integration launched its Match-on-Card RSA national ID and fingerprint reader and biometric voter registration stations, and Bytes People Solutions developed a remote vendor training solution – Digital Real-Time Training (RTT).

Each of our product innovations provides our clients and customers with fresh, world-class technology options – from financial, and safety and security solutions, to innovative platforms within healthcare and training.

## PRODUCTS AND SERVICES | Continued

### PRODUCT AND SERVICE OFFERINGS

#### Business context

South Africa has always been a volatile environment in which to do business – but that brings with it opportunity. It is important that Altron remains ready to respond to those opportunities and to our customers' evolving digital needs and demands. We do this through smart acquisitions, recognising where needs arise for a service or competency, and through delivering efficiencies.

Our strategic partnerships enable us to offer a wide variety of innovative, custom-packaged solutions to our customers in our product and service offerings, while limiting the costs and risks associated with developing our own technology.

#### Our performance

##### Ensuring quality

As part of Altron's broader strategy we have instilled a paradigm shift in our product and service offerings based on a more developed understanding of our customers' business needs and their unique market positions. Our focus has moved beyond ICT skills and product offerings to offering integrated, end-to-end solutions that holistically address our customers' overall digitisation demands and requirements. We have therefore worked to create and to offer more products and services within a single bouquet to our customers.

We have also resourced our broader business understanding and consulting capabilities through our key account executives (KAEs) in key verticals such as banking, retail and telecommunications, so that we

are able to gain insight into our customers' business, the solutions they require and – most critically – the direction in which their businesses are moving, so that we can pre-empt their digitisation and technology needs.

Our market offerings are often a combination of product and service offerings, rather than simply a "box dropping" of products. In this way we are developing long-term, sustainable relationships with our customers and are better positioned to provide unique, high-quality, cost-effective solutions.

#### Capturing adjacencies

As Altron moves out of a period of recovery and looks towards new growth, we remain alert for opportunities to make small "bolt-on" acquisitions, thereby capturing adjacencies in an incremental manner. In this way we can evolve slowly each year by transitioning into new technology spaces with minimal risk, and capitalising on the vertical integration of these acquisitions into the group.

Altron has also recognised that it can add value by delivering a bundled skills offering to our customers, together with our traditional portfolio of products and services, which contributes

to their business success. AAD, for example, has captured project management and full supply chain management adjacencies that enrich its business offering to its customers. We expect that many of our operations will continue to look toward broadening their service offerings in this way.

We are currently reviewing the operating models of each business so as to prioritise our investments as a group with these adjacencies in mind. When making acquisitions we look beyond just the numbers to consider the potential fit within the group and the market in which the relevant business operates. In this way we can assess potential for both integration and synergy extraction, ensuring that we maximise the return on those adjacencies.

In 2017 we conducted a white space analysis of how our current portfolio of products and services aligns to what we consider to be the technologies of the immediate future. Those results will drive where we make our acquisitions and build internal capacity to be strongly positioned when those trends become mainstream. We also continue to track our areas of competitive advantage on which we will be able to build.

#### The benefits of bolt-on

Altech NuPay's acquisition of Delter IT Services, a microlending software development company, in 2016 has provided an accretive product portfolio that is fully integrated with the current business support processes of Altech NuPay and Altech Card Solutions (ACS). We have also been able to leverage the combined economies of scale afforded by having these two businesses under one management team, and now forms part of BSTS.

### Cloud technology

As the market transitions away from own-and-operate towards pay-per-usage or services-based business technology solutions, we are responding by championing various cloud solutions. We are seeing a steady progression towards uptake of cloud-based services although, with the technology being relatively new, many customers are first moving towards hybrid cloud solutions.

Altron has made steady progress this year in moving its own operations and people toward cloud-based services and operations. This year we prepared to roll out Salesforce, a cloud-based client relationship management system, throughout the group. Our enterprise resource planning (ERP) systems and processes are entirely based within our private cloud and our productivity suites have been moved into the public cloud domain. We expect all our operations to be using hybrid cloud solutions or to be functionally cloud-based by June 2017.

This migration to cloud solutions has already demonstrated advantages to the group by increasing our agility and responsiveness, particularly in terms of being able to scale our systems rapidly to respond to real-time needs. Cloud technology also aids business continuity and results in cost reductions with regard to licensing fees and IT systems maintenance and operations.

There are both risks and opportunities inherent in cloud-based products – for our customers and for the group. All current cloud-based market offerings are international, which means that they are subject to currency volatility. In time we anticipate opportunities for local strategic partnerships to emerge.

## LOOKING AHEAD

Going into 2018 we will continue to be a low-cost producer, maintaining our focus on costs and efficiencies. We will continue to offer our existing customer base a wide variety of creative, innovative technology and digitisation solutions whilst exploring new partners and adjacencies in order to retain efficiency in supply and provide increased offerings to our customers. Our ability to implement and facilitate technology is our strength and we will continue to play to this advantage.

As the world looks towards new emerging technologies, such as advanced analytics, blockchain and the internet of things (IoT), and as our customers' business needs evolve accordingly, we are conscious that we must remain adaptive and able to change quickly. This requires both organic growth and an acquisitional ability to buy into disruptive changes as and when they are commercialised.

Digitisation will constitute a significant disruption to the wider business community in coming years and we expect this to offer exciting opportunities for Altron in its products and services space. We are already supporting many of our government customers in creating infrastructure and systems for digital inclusion throughout South Africa and we expect this to become an important source of growth for Altron.



# EXTERNAL RELATIONSHIPS

## HIGHLIGHTS

- We have centralised our client relationship management, ensuring that relationships with customers remain strong at a group level
- Investor confidence in the group has improved
- Our environmental footprint has reduced significantly, as most of our core operations are service-based, producing minimal emissions or waste

## CHALLENGES

- Retaining investor confidence through a difficult period
- Maintaining predictable and sustainable business relationships with the public sector
- Aligning our supplier base with B-BBEE procurement requirements

## PERFORMANCE SUMMARY

	2017	Core	Non-core	2016	Core	Non-core	2015
GHG emissions (tCO <sub>2</sub> e)	104 933	29 469	75 465	142 203	28 809	113 394	159 935
Electricity consumption (MWh)	86 196	18 525	67 671	124 221	19 499	104 722	134 934
Water sourced (kl)	276 547	81 025	195 522	409 909	82 320	308 873	507 283
All waste generated (t)	22 412	473	21 939	15 480	524	14 956	13 494
Total municipal waste generated and sent to landfill by group company (t)	1 175	310	866	1 964	319	1 650	2 276

## MATERIAL ISSUES

In our rapidly evolving markets, relationships with key external stakeholders help us to gain access to opportunities, mitigate risk and provide the products, services and solutions our customers require.

Maintaining relations with investors, clients and customers, government and parastatals, strategic partners and suppliers is therefore essential to Altron and we prioritise and manage relationships with each of these groups carefully. Our relationships with our investors and external financiers have been particularly important over the recent difficult period and remain so as we move into a prosperous era. Going forward, our strategic partnerships will begin to take on an increasingly critical role in the business as we evolve our new ICT-focused strategy.

Limiting the environmental impact of our operations is also important in retaining our reputation as a good corporate citizen.

## OUR APPROACH

Altron depends on its relationships with various external stakeholders. Each group enables us to do our business smoothly and efficiently so that we, in turn, are able to create value for each of them. We prioritise the maintenance of each of these relationships by keeping these stakeholders informed and by gathering their input through a structured, centralised system, which guides us in making our key strategic decisions.

We manage these relationships at an individual, business and at a group level as required, with ultimate accountability as follows:

External stakeholder	Relationship accountability
Clients and customers	All businesses and employees, in a multi-tiered structure, taking lead from the CE and management
Investors	Altron board, CE, CFO, Exco, group secretarial, investor relations
Government and parastatals	CE, Exco, key account executives
Strategic partners	CE, Exco, business management
Non-strategic suppliers	Group procurement
Environmental footprint	Group sustainability

## FEEDBACK ON 2016/17 COMMITMENTS

	1	2	3	4
COMMITMENT	Focus on developing customer relationship management and business intelligence analytics.	Proactively address investor confidence, which remains a key concern for the group.	Continue to foster existing partnerships with global OEMs, applying their best-of-breed solutions to derive benefit for our customers, while seeking new partnership opportunities.	Continue to monitor the identified areas of risks and opportunities within the value and supply chains.
FEEDBACK	This year we are continuing to look at implementing Salesforce, a cloud-based client relationship management application, which will centralise and streamline these engagements.	Investors were engaged actively and continually during 2017 at all levels of management, including by non-executive board members. The increase in share price is indicative of the resulting growth in confidence in the group and its future performance.	We have maintained and strengthened our key partnerships and we are excited about various new strategic international partnerships that were entered into this year within Altron TMT.	The monitoring of risk and opportunities within the supply chain continues within the context of each operation alongside supplier development and procurement as determined within the ICT Charter.

## EXTERNAL RELATIONSHIPS | Continued

	5	6	7
COMMITMENT	Continue to capture the environmental spend data, based on spend parameters into the environmental data system, along with other environmental footprint data, including facilities that are leased where this data may not be available.	Reporting against and monitoring of environmental reduction targets to continue during the year as part of the group's three-year (2015 – 2018) reduction strategy.	Explore more relevant and appropriate environmental and emissions metrics and indicators within the technology sector, where we previously applied generic indicators to obtain a common view across the group.
FEEDBACK	Data capturing improvements continue to be developed. With the refocus of the group orienting our operations towards office and administrative, rather than manufacturing, facilities the data we are required to source is becoming less complex.	The focus on core operations has now provided the group with a better understanding of its baseline and we will be looking at adopting science-based targets (SBT) as a target-setting methodology going forward, replacing previous targets set by the group.	The development of relevant and appropriate environmental metrics continues to be investigated and, where possible, comparable metrics as outlined in best practices will be assessed and implemented alongside the SBT methodology.

## KEY RISKS

## RISKS

## KEY MITIGATION STEPS

- |   |  |
|---|--|
| <ul style="list-style-type: none"> <li>• Reputational risk</li> </ul>               | <ul style="list-style-type: none"> <li>• We have worked hard to regain and retain the confidence of our shareholders in the difficult transition period. We have focused on structuring the business around a sustainable core and on creating maximum value for shareholders.</li> <li>• The investment in Altron by Value Capital Partners (VCP) and institutional investors such as The Public Investment Corporation and Sanlam Investment Management after year-end has provided significant reassurance to investors.</li> </ul> |
| <ul style="list-style-type: none"> <li>• Customer concentration</li> </ul>          | <ul style="list-style-type: none"> <li>• A white space analysis within our most strategic client relationships has uncovered gaps and opportunities within our client base.</li> <li>• We are conscious of the need to diversify our client base, particularly in the public sector, and are taking steps to do so.</li> </ul>   |
| <ul style="list-style-type: none"> <li>• Effectiveness of sales function</li> </ul> | <ul style="list-style-type: none"> <li>• We have created sales internship and learning programmes that will enable diversification of our service offerings.</li> </ul>  |

## CLIENTS AND CUSTOMERS

### Business context

Our clients' satisfaction is paramount to our ability to attract and retain future business.

We pride ourselves on anticipating our customers' diverse needs and on delivering quality, innovative, tailor-made solutions to our clients. The longevity of many of our client relationships speaks to our customers' satisfaction in this regard. However, we are conscious that these relationships require ongoing investment and continual revision to ensure that we are meeting our clients' needs.

The rationalisation of the business has positioned us to take a more centralised approach to our client relationship management, both through formal shared services systems, and through enabling and encouraging more informal collaboration and communication within the group.

### Our performance

Our goal is to become a partner to our customers by embracing the same goals, priorities, timelines and expectations. We have taken a deliberate and focused approach this year to building, maintaining and managing our client and customer relationships. New customer acquisition has been a priority, as we drive growth in our customer base. We have succeeded in improving and streamlining our account management competencies, although this will be an ongoing process.

As expected, our rationalisation of the business, together with moving to a shared services model, has encouraged collaboration and communication

within the group, which has positively fed our approach to customer engagement. We are moving from reviewing how each separate business within the group is performing vis-à-vis each client, to considering our overall group relationship with each client. This is an important aspect of driving our holistic approach to delivering relevant, integrated product and service offerings (see more information regarding how we have deepened and broadened our approach to understanding our clients' unique product and service needs on page 50).

The shift to a group-wide client approach will be assisted by the implementation of Salesforce, which Altron will roll out as part of the group's shared services model. This technology offers a single view of each customer, their history and their unique requirements, and therefore helps to centralise and manage client information and relationships and ensures a primary point of contact with each client. Through this centralised system, and by encouraging collaboration among different teams, we can draw from and tailor expertise from across the group, which we anticipate will contribute to improving the quality of our service delivery.

In 2017 we again conducted client satisfaction surveys at operational level, which enabled us to gauge our customers' needs and to be more proactive and forward-looking in our relationships with our clients and customers. Most of the Altron business divisions measure the quality of their client relationships using the Net Promoter Score (NPS), which provides an overall measure as to how likely clients and customers

are to recommend a business based on their relationship or a recent interaction with a company.

This year we were particularly proud of MediSwitch, which scored a NPS of 85%, and of Altech Netstar, which received a NPS of 81%, a notable improvement from the previous year's 72%. Bytes Document Solutions (BDS) received a NPS of 54%, down from the previous year's 63%, which decline is being addressed by the operational management of BDS.

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Revenues within key client accounts have increased **4%** year-on-year as the result of more targeted client relationship management through our key account executive (KAE) programme.

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Going forward, as we move to view and serve our clients from a group rather than a divisional perspective, we hope to measure customer satisfaction in a standardised way at a group level.

This year we also conducted a white space analysis within our most strategic client relationships as part of our key account executive (KAE) programme. This is a strategic market analysis that uncovers unmet needs within our client base to show where there are opportunities for new products and innovations or adjacencies. We use the results of these reviews to maintain an open communication with our key clients regarding their priorities.

## EXTERNAL RELATIONSHIPS | Continued

## INVESTORS

## Business context

We have worked hard this year to regain and retain the confidence of our shareholders. The group has undergone a difficult period of change, and as we move onwards towards a period of consolidation and growth it is of the utmost importance to us that our investors continue to trust in Altron – in our management, our company, our sustainability and our strategic vision.

As at year-end the Venter family remained the largest shareholder, with 57% voting position and a shareholding of approximately 18%. Subsequently, the shareholding has been changed by the investment of Value Capital Partners (VCP), which has acquired a 15% stake in the group, but the Venter family has retained all of its shares.

## Our performance

This year Altron has placed particular priority on the preservation and creation of overall value for its shareholders. We have begun to analyse each of our businesses' portfolios with regard to their operating models and their sustainability going forward, to provide a more solid long-term view of the group and

enable us to make adjustments in order to create maximum value going forward.

We remain committed to regular, transparent communication with all of our investors as there is still significant work to be done in the period ahead. We engage with investors through our quarterly and annual reports, results presentations, road shows and company visits to provide our current and potential investors an overview of our operations and our performance.

In 2017 we again issued a number of announcements that have affected our shareholders. We ensure that these announcements are always prompt and candid. Of most notable importance this year was the announcement regarding the proposed investment in Altron by VCP, which was concluded after year-end.

Looking forward, while most interaction with investors will remain the ambit of the executive management, we expect that the group chairman will take on a more active role in investor relations management, for example, through attending annual investor road shows.

## GOVERNMENT AND PARASTATALS

## Business context

Long-term government contracts represent significant growth opportunity for the group, which is particularly important in tough economic times when other sectors slow their expenditure. In addition, government fills the roles of regulator and influencer through frameworks, policy and legislative direction. We prioritise regular engagement with government, not only as a customer but also to remain abreast of industry developments.

## Our performance

As an active corporate citizen in the ICT industry Altron communicates openly and regularly with government regarding the inherent competitiveness of the industry, new technologies and trends, benefits and efficiencies. We engage with government on a formal basis through various bodies such as Business Leadership South Africa (BLSA), Manufacturing Circle and the National Business Initiative (NBI).

As a service provider we remain committed to and focused on government – at a local, metro and municipal level. Altron is strongly



positioned to serve government's unique requirements, particularly to execute plans in connectivity and digitisation through its end-to-end value-add service offerings.

We work hand in hand with public sector clients to address their needs, to enable government to be an efficient consumer of ICT, and most effectively to address the developing digitisation needs of the country. We value our long-term public sector relationships and tend to view these contracts not as transactions, but rather as longer-term value-adding interactions. We do, however, remain conscious of the need to diversify our client base.

We are currently working closely with our government partners in rolling out broadband networks and to provide solutions in the healthtech space. The eHealth@Joburg facility, for example, is an electronic health record system developed by Med-e-Mass that enables 81 clinics in the City of Johannesburg metro to keep track of their patients efficiently and effectively. The facility conforms to the National Department of Health's Health Normative Standards Framework (HNSF).

## STRATEGIC PARTNERSHIPS

### Business context

Through our long-standing relationships with both local and international partners Altron is able to gain access to a diverse array of high-quality products, services and intellectual property. We leverage the IP of our strategic partners to enable us to deliver the most innovative solutions to our customers and clients. In turn, we then add our implementation expertise to enhance and localise these solutions. As a result we place great importance on these relationships with our strategic technology partners.

### Our performance

Strategic partnerships and joint ventures with international suppliers and original equipment manufacturers (OEMs) are fundamental to how we do business as a technology-focused group. They give us access to the latest innovations and research and development across the globe, which enables us to remain competitive and to meet our evolving customer requirements in a cost-effective manner. By maintaining a variety of strong, non-exclusive relationships, we open ourselves to opportunities available in the market.

Some of our international technology partners include Cisco, Dell, Huawei, Kronos, Microsoft, NCR, Unisys and Xerox. In 2017 we announced the partnership of Altech Radio Holdings and Bytes Systems Integration with Nokia, which was finalised in December 2016. We are looking forward to the new innovations that this partnership will bring.

For many of our partners we are their largest supplier or reseller. We add value by cultivating their innovations, and through the application, localisation and implementation of their technologies. Many of our strategic partner relationships are long-standing and are given high priority within the group, nurtured by senior leaders – including our chief executive.

This year we have focused on renewing and maintaining our existing international and OEM partnerships, building on an established culture of trust and collaboration. We maintain an "open door" policy with these partners and engage often – both formally and informally – in order to ensure that each of these primary relationships continues to offer mutual benefit and produce tangible outcomes.



## EXTERNAL RELATIONSHIPS | Continued

## SUPPLIERS

## Business context

While our primary technology partnerships are important we continue to engage with a significant base of non-strategic suppliers across the group. These suppliers remain critical to our ability to fulfil our obligations to our customers and clients.

## Our performance

As we have moved out of our non-core manufacturing operations, our procurement profile has shifted substantially, away from commodities and raw materials, towards more value-adding technology and products. Many of these requirements can be met only by overseas suppliers, specifically as OEMs, although we look for local suppliers wherever possible.

This year we reviewed our supplier groups to determine their strategic value to the group. This process enabled us to establish which relationships should be enhanced, which should be discontinued and gaps where we can look for opportunities to form new supplier relationships. In this way we continue to evolve as a group, ensuring that all our relationships add strategic value to our business.

Subsequent to the amended B-BBEE ICT Sector Code coming into force, procurement is one of our key transformation focus areas, and this consideration will inform our recruitment of new suppliers.

## ENVIRONMENTAL MANAGEMENT

## Business context

Previously the majority of Altron's environmental impact emanated from the manufacturing operations within Altron Power, which have been classified as non-core. Now, as a predominantly service-based business, our environmental impact is significantly reduced and as a consequence our environmental footprint has become less material to the group.

Nonetheless, we remain committed to proactive environmental initiatives and we are continuing to strive to make the most efficient use we can of our natural resources. Our aim is to find creative ways to use our technology to become more environmentally responsible – thereby creating cost-saving opportunities for both Altron itself and our clients.

In tracking our environmental data we have begun to separate core and non-core operations, which creates a more accurate baseline for future measurement so that we can set realistic reduction targets in the coming reporting period.

## Our performance

## Energy and emission management

In 2017 we once again participated on a voluntary basis in the Carbon Disclosure Project's (CDP) climate change programme. Altron scored a "B-", which indicates a "Management" score level

(the second of four consecutive levels). The industry average score is "C". Companies at Management level are found by CDP to be taking further steps to effectively reduce emissions, indicating more advanced environmental stewardship. The score is benchmarked against peer companies from the Industrials sector. Going forward Altron will be reclassified into the Information Technology industry.

The group's carbon footprint, including Scopes one, two and three greenhouse gas (GHG) emissions, declined by 26% in 2017 (2016: -11%). However, this was mainly due to the exit of Powertech Cables from the group in June 2016, as well as the closure of offshore branches within Altech UEC.

Scope two emissions (from electricity purchased) remains the greatest proportion (83%) of the group's total emissions. In total the group consumed 86 196 MWh during the year, 31% down from the 124 221 MWh consumed in 2016. Again, this reduction is due to the disposal and exit of non-core manufacturing operations.

## Water management

South Africa has continued to experience extreme water shortages across the country. While our core operations have not been operationally affected by restrictions, we are conscious that, as a group, we must strive to do our part in conserving this resource. Overall in 2017, the group sourced 276 547 kl of water,

33% less than in 2016. This was again due to the disposal and closure of non-core facilities.

As a result, in 2017 we have started a trial to move away from plastic bottled water and instead installed an atmospheric water generator in our head office, which generates drinking water through condensation. We have calculated an average saving of R8 per litre of water produced through this technology. This trial has been extended to our Cape Town offices, where the drought has been particularly severe. These water-saving measures, while not material to the group's performance, create greater understanding of the importance of water preservation among our employees, and the broader management of water as a scarce resource within operations.

#### *Waste management*

Municipal waste sent to landfill remains a generic waste type across all our operations and reduced 40% in 2017 (due to loss of non-core operations). Since 96% of the group's total waste is produced by non-core operations, our total waste figure rose in 2017 as a result of Altron Power's total waste increasing from 14 960 tonnes to 21 422 tonnes. This was mostly due to the business's disposal of hazardous waste generated through Powertech's battery recovery activities.

We continue to encourage recycling of waste, especially glass, paper, plastic and metals within our office environments.

## LOOKING AHEAD

Going into 2018 we will continue to prioritise our relationships with each of our external stakeholders, communicating with them regularly to understand their needs and continuing to create value through mutual benefit.

Every year, we commit to serving our clients and engaging with our suppliers in the professional, individual, expert manner that they have come to associate with the Altron brand and 2018 will be no different. In the coming year we will continue to pursue new partnerships to enable delivery of cloud services, big data analytics and data visualisation to our customers. Our investors will remain an important priority, and we will continue to prioritise their interests and to engage regularly and openly with them.

In terms of our environmental impacts, we believe that improving our footprint is important to the group, not only as a good corporate citizen, but also because more efficient use of natural resources can be a significant source of cost savings and risk mitigation, for us and our customers.

As we continue to move our focus away from manufacturing and towards our service-based operations, we expect that our footprint will naturally continue to decline and this will become a less material issue to the group as a whole. Going forward we will also be able to explore more relevant and appropriate environmental metrics and indicators within the ICT sector, where we have previously applied generic indicators to obtain a common view across the group.

# PERFORMANCE SUMMARY

Financial sustainability	2017	Core	Non-core	2016	Core	Non-core	2015
Revenue (Rm)	19 717	13 892	5 825	26 592	14 357	12 235	27 623
EBITDA (Rm)	840	950	(110)	376	888	(512)	1 383
EBITDA margin (%)	4,26	6,84	(1,89)	1,4	6,2	(4,2)	5,0
Operating profit/(loss) (Rm)	618	728	(110)	(74)	702	(776)	827
Profit/(loss) for the year after tax (Rm)	(302)	415	(717)	(1 100)	360	(1 460)	(60)
Headline earnings/(loss) (Rm)	240	387	(147)	(488)	425	(913)	312

## Human capital

Permanent employees	10 219	8 206	2 013	12 676	8 362	4 314	12 049
Group employee turnover rate (%)	1,90	–	–	1,64	–	–	2,24
Total training spend in SA (Rm)	87,5	–	–	86,5	–	–	110,3
Total CSI spend (Rm)	8,4	7,7	0,7	10,4	9,3	1,1	10,7

## Products and services

Number of patents filed	8	–	–	6	–	–	14
R&D spend (Rm)	220,5	–	–	163,4	–	–	227,0

## External relationships

Altron TMT – total measured spend on suppliers (Rm)	3 775*			3 429			n/a
Altron TMT – B-BBEE procurement spend (after adjusting for certified B-BBEE procurement recognition) (Rm)	3 676*			2 937			n/a
Altron TMT – B-BBEE procurement spend: percentage of total measured spend (%)	97*			86			n/a
GHG emissions (tCO <sub>2</sub> e)	104 933	29 469	75 465	142 203	28 809	113 394	159 935
Electricity consumption (MWh)	86 196	18 525	67 671	124 221	19 499	104 722	134 934
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All waste generated (t)	22 412	473	21 939	15 480	524	14 956	13 494
Total municipal waste generated and sent to landfill (t)	1 175	310	866	1 964	319	1 650	2 276

\* Unaudited.

## BOARD STATEMENT REGARDING THE ALTRON INTEGRATED ANNUAL REPORT

The board of directors (board) of Allied Electronics Corporation Limited, having been fully appraised of the sustainability issues contained in the 2017 integrated annual report and having applied its collective mind, hereby:

- acknowledges responsibility for ensuring the integrity of the integrated annual report;
- acknowledges responsibility for the preparation and presentation of the integrated annual report;
- agrees that the integrated annual report has been presented in accordance with the International Integrated Reporting Council's International Integrated Reporting Framework; and
- believes that, to the best of its knowledge and belief, the integrated annual report addresses all material issues and fairly presents the integrated performance of the Altron group and its impacts.

The board further records that the integrated annual report has been prepared in accordance with best practice and pursuant to the recommendations contained in the King Code of Governance Principles for South Africa 2009 (Principle 9.1) and that the disclosures have been reported on in terms of the Global Reporting Initiatives G4 Guidelines. The board approved the integrated annual report on 25 May 2017 for release on or about 14 June 2017.

## CERTIFICATE FROM THE COMPANY SECRETARIES

In terms of section 88(2)(e) of the Companies Act No. 71 of 2008, as amended, we certify that to the best of our knowledge and belief the company has lodged with the Companies and Intellectual Property Commission all such returns as are required of a public company in terms of the Companies Act No. 71 of 2008, as amended, in respect of the year ended 28 February 2017 and that all such returns are true, correct and up to date.

**Altron Management Services Proprietary Limited**  
Secretaries



**WK Groenewald**  
Group Company Secretary

25 May 2017





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