

Remuneration report

Introduction

Altron's approach towards remuneration aims to ensure that an appropriate balance is achieved between the interests of shareholders and providing attractive and appropriate remuneration packages to executives. The remuneration practices of the group have been structured to be competitive in the rapidly evolving industry in which we operate and to ensure that the group can attract, motivate and retain the high calibre of people with above industry average ability and leadership potential needed to effectively run the group and its subsidiary companies.

With effect from 1 March 2007, the Altron group adopted a total cost of employment (TCOE) philosophy for all employees. It is envisaged that the move to TCOE will necessitate a review of all remuneration linked benefits during the 2007/8 financial year, which will be reported on in the 2008 annual report.

Remuneration philosophy and policies

Altron's philosophy is to set appropriate remuneration levels to attract, retain and motivate the calibre of directors and executives needed to run the group and its subsidiaries successfully, while aligning their interests with those of shareholders over the short, medium and long term. The overall policy is to ensure that executive directors are fairly rewarded for their individual contribution to the group's operating and financial performance in line with its corporate objectives and business strategy, and that this reward is aligned with industry and market benchmarks.

For each executive director, group policy is to provide a performance-based remuneration package comprising a base salary, the opportunity to earn a cash bonus, long-term incentives through participation in share incentive schemes or similar

instruments, pension contributions and medical aid benefits.

The objective is to establish a level of guaranteed pay that is competitive with the upper quartile level for similar companies. The variable element of short-term incentives is intended to provide superior total pay opportunities, should corporate performance merit it, as well as reward individual performance. Long-term incentives have been based on multiples of base pay and structured to align with shareholders' interests.

These policies and practices are regularly reviewed. Altron keeps abreast of and, where relevant, is guided by international best practice benchmarks with regard to executive remuneration (such as those contained in, among others, the Association of British Insurers (ABI) Guidelines on Executive Remuneration Policies and Practices).

Membership

The remuneration committee has a majority of non-executive directors and is chaired by Jacob Modise (independent non-executive). Other members are Myron Berzack, Peter Wilmot and Altron chairman, Dr Bill Venter.

The chief executive has right of attendance at meetings unless deemed inappropriate and the chief financial officer attends meetings by invitation, but neither participates in discussions on their own remuneration.

The group company secretary, Andrew Johnston, acts as secretary to the remuneration committee.

Terms of engagement – chairman and other non-executive director members

The board annually assesses the composition of the committee to ensure that it continues to operate effectively, and on the recommendation of the nomination committee, re-elects members at the first board meeting following the annual general meeting. The chairman of the committee

is appointed by the members of the committee and holds office for five consecutive years whereafter he/she is obliged to step down from the position unless the board believes it appropriate for the chairman to remain in office beyond his/her initial term.

Composition and proceedings

The committee meets bi-annually, unless additional meetings are required. During the review period, the committee met twice.

Role

The committee operates under a board-approved mandate and terms of reference, updated in the prior period and aimed at:

- ▶ Ensuring that Altron's chairman, executive directors and senior executives are fairly rewarded for their individual contributions to group performance. Packages are structured to be competitive with the upper-quartile level of peer companies and market benchmarks, in order to attract, motivate and retain the high calibre of skilled professionals the group requires to ensure its continued success, and to compete both locally and internationally
- ▶ Ensuring that Altron's remuneration strategies and packages, including short- and long-term incentive plans, are based on performance and appropriately competitive
- ▶ Recommending fees for non-executive directors for service on the board or its sub-committees. Once approved by the board, these are submitted to shareholders at the annual general meeting for ratification
- ▶ Balancing the interests of shareholders with the financial and commercial viability of the group
- ▶ Scrutinising all other benefits, and other financial arrangements to ensure they are

justified, market-related and disclosed in a transparent manner.

Altron's subholdings, Altech and Bytes, have their own remuneration committees which review and recommend remuneration and related awards for executive directors and senior management, to their boards and within the parameters of group policies. In respect of those executives of Altech and Bytes who are also members of the Altron executive committee, their remuneration packages are, once determined at the subholding level, submitted to the Altron remuneration committee for noting and confirmation.

Self-evaluation

During the period under review, the committee conducted a self-assessment exercise into its effectiveness. Overall, the findings of the remuneration committee assessment revealed positive results with participants (both members and invitees) suggesting only minor improvements to improve the functioning and effectiveness of this committee.

The committee believes it has provided adequate disclosure to shareholders, characterised by substance over form. It is satisfied that performance related elements of remuneration constitute a large proportion of total remuneration packages, that the remuneration levels determined by the committee are sufficient to attract, motivate and retain senior executives of Altron, and that it has established a formal and transparent policy and procedure for determining executive director remuneration.

Emerging international best practices which the committee is currently debating and which have recently gained support among South African public listed companies include recognising the contribution made by each non-executive director towards meetings.

Areas for improvement identified through the self-evaluation include the need for ongoing training on remuneration best practices and trends. With the ever-changing dynamics of the global economy and shifting employee expectations, training will assist the committee in dealing with and negotiating increasingly complex, performance-driven reward packages.

In addition, while the committee feels that progress has been made in addressing succession planning throughout the group during the year under review, this will remain a major focus area for the group over the next financial year.

Service contracts

Executive directors are subject to Altron's standard terms and conditions of employment where notice periods are between 30 and 60 days. In line with the provisions of the Companies Act of 1973 (as amended), group policy prevents any director from being compensated for loss of office.

Advisors

The committee regularly consults with a range of external independent advisors on market information and remuneration trends as well as other advice necessary to fulfil its responsibilities. It also considers the views of the chief executive, Robert Venter, on the remuneration and performance of his colleagues on the Altron executive committee.

Executive directors' salaries

The remuneration committee reviewed and revised the salaries of executive directors at its meeting in February 2007. The salaries of executive directors were compared to a market information survey on companies of similar size and structure and adjusted to reflect levels compared to the upper-quartile segment of the survey.

Altron embraces the principles and complies with the provisions of the King Code of Corporate Practices and Conduct relating to executive directors' remuneration. We are furthermore guided by best practice principles as appropriate, particularly those of the ABI Guidelines on Executive Remuneration Policies and Practices. The overarching principles that the remuneration committee has applied during 2006 towards executive remuneration and which it intends to continue to apply are as follows:

- To ensure remuneration drives the overall key business strategies and create a strong, performance-orientated environment, so as to align the interests of management with the interests of shareholders
- To provide a competitive remuneration package in the upper quartile of the market taking into account appropriate benchmarks such as market rates of executives of companies of a similar size and scope to attract and retain the exceptional quality individuals the group requires to sustain its growth
- To use such benchmarks and comparisons with caution, recognising the risk of an upward ratchet of remuneration levels with no corresponding improvement in performance
- To make a significant percentage of potential maximum reward conditional on both short-term and long-term performance. These rewards include an annual bonus plan and share-based incentives, i.e. conditional rights, in order to align the executive directors' interests closely with those of the shareholders
- To establish an appropriate balance between fixed and variable remuneration which are based on targets that are relevant, verifiable and stretching
- To take into account pay and employment conditions elsewhere in the group, especially in setting annual salary increases

- To actively seek to understand shareholder preferences as it pertains to remuneration and disclosure thereof.

Annual incentive plans

Executive directors and Altron executive committee members participate in an annual bonus plan that rewards the achievement of group and subsidiary financial performance as well as strategic and personal performance objectives agreed with the chief executive. All objectives are approved beforehand by the remuneration committee. Under this plan, the chief executive may earn a bonus of up to 75% of his base salary. Other executive directors and executive committee members may earn between 55% and 65% of their base salaries.

Group and subsidiary financial performance targets include:

- Headline earnings per share growth
- Return on net assets
- Return on equity
- Cash generation.

These targets vary according to individual company needs. In all cases, 60% of the bonus is based on financial objectives with the balance relating to strategic and personal performance, benchmarked against identified and predetermined key performance indicators.

At its meeting in May 2006, the remuneration committee reviewed the performance of executives participating in the bonus plan against their agreed targets. Within these parameters, and subject to meeting the noted criteria, bonuses were approved. Performance measures are stringently monitored and penalties imposed in cases where targets are missed.

Share option schemes

As a vehicle for linking reward to executive performance over the longer term, Altron's share option scheme grants options to all senior employees within Altron and Powertech. Grants have historically been made annually to maintain an overall cap of 8.5 x base salary for the chief executive, and 6.5 x to 7.5 x base salary for Altron executive committee members. Share options and conditional rights granted under the current scheme may be exercised after three years and vest in equal tranches in years three, four and five. These options and conditional rights lapse after a six-year period. The share option scheme includes options granted under a previous scheme which is in run-off and has an expiry period of no later than 2012. Additional options, based on both corporate and individual performance, may be granted annually to ensure that the multiple-of-base salary parameter reflects increases in base salary.

The salient features of the conditional rights scheme include awarding eligible participants' rights to acquire shares subject to meeting future vesting conditions. Each conditional right will have an award price equal to the closing price of a share on the day preceding the award of that conditional right. The vesting conditions attaching to conditional rights will be specified in advance, and the conditional rights only vest based on meeting the vesting conditions, namely the achievement of preset performance targets. These targets relate to headline earnings per share growth. The quantum of shares that can be acquired may vary, depending on the extent to which performance targets are met.

If a participant ceases to be an employee as the result of his resignation or dismissal on the

grounds of misconduct, poor performance or breach of his employment contract, all conditional rights (both vested and unvested) awarded to the participant will lapse with immediate effect.

Pensions

During the year, the relevant group companies made contributions for executive directors to the Altron Group Pension Fund. The rate of contribution is 12%, based on the cash salaries of these individuals. The value of contributions for each executive director appears in the summary of directors' emoluments on page 134.

None of the non-executive directors of Altron contributed to any group pension fund during 2006 or had any accrued pension fund benefits in the Altron Group Pension Fund at 28 February 2007.

Other benefits

Executive directors receive medical aid assistance, company car or car allowance and a death-in-service benefit.

Non-executive directors' fees

The fees of non-executive directors are recommended by the remuneration committee, approved by the Altron board and ratified by shareholders at the annual general meeting. Fees for the 2006/7 financial year were reviewed and revised in February 2006, with the basic annual fee set at R95 000.

Altron's policy on remuneration for non-executive directors is that this should be;

- fee-based
- market-related (having regard to fees paid and number of meetings attended by non-executive directors of companies of similar size and structure to Altron and operating in similar sectors)
- not linked to share price or Altron performance.

Altron non-executive directors do not receive bonuses or share options, recognising that this can create potential conflicts of interest which can impair the independence which non-executive directors are expected to bring to bear in decision-making by the board.

Annual fees for membership of various committees for the review period were:

Audit committee – chairman – member	R55 000 R30 000
Nomination committee – chairman – member	R12 000 R12 000
Remuneration committee – chairman – member	R50 000 R30 000
Risk management committee – chairman – member	R50 000 R25 000

Disclosure for directors' emoluments

Non-executive directors		Subsidiaries	Altron	2007 Total R'000	2006 Total R'000
Fees for services as directors					
IM Ayob			—	—	35
MC Berzack			137	137	115
DA Hawton			—	—	103
MJ Leeming			187	187	165
MJ Lamberti			125	125	36
JRD Modise			175	175	120
Dr PM Maduna			107	107	85
DC Mpofo			50	50	61
PL Wilmot		315	205	520	448
		315	986	1 301	1 168

R'000		Perfor- mance- related bonuses (accrued)	Share† option expense	Allow- ances	Defined contri- bution pension payments	Other benefits	2007 Total	2006 Total	
Chairman									
Dr WP Venter		3 249	—	—	120	—	1 947	5 316	5 253
Executive									
Dr HA Serebro		1 158	—	—	90	—	8	1 256	1 693
RE Venter		3 714	2 875	1 472	120	446	156	8 783	6 437
DC Radley		2 411	1 645	783	120	289	25	5 273	4 014
CG Venter		2 845	2 020	1 275	262	341	185	6 928	5 194
PD Redshaw		2 663	1 832	1 222	—	320	176	6 213	4 666
PMO Curle		1 687	998	815	127	202	56	3 885	2 905
N Claussen		1 941	1 506	802	198	233	23	4 703	1 868
DC Mpofo		—	—	—	—	—	—	—	727
		19 668	10 876	6 369	1 037	1 831	2 576	42 357	32 757

†IFRS 2 income statement expense in respect of options granted to directors.

Directors' options	Entity	Purchase date	Strike price	Balance 1 Mar 06	Awarded	Exercised	Exercise date	Net gains R'000	Exercise price	Balance 28 Feb 2007	Expiry date
CG Venter	Altron	5/10/96	6.50	1 680		1 680	6/7/06*	29	24.20	—	May 06
	Altech	4/18/00	12.80	53 178						53 178	Apr 10
	Altech	3/14/02	20.35	75 467		37 733	10/26/06	1 373	57.50	37 734	Mar 08
	Altech	8/31/04	32.25	63 500						63 500	Aug 10
	Altech CRI	12/15/05	50.99	337 100						337 100	Dec 11
	Altech CRI	11/22/06	57.75	—	53 775					53 775	Nov 12
DC Radley	Altron	10/1/02	7.25	625 267						625 267	Oct 12
	Altron	7/27/04	11.20	134 100						134 100	Jul 10
	Altron CRI	2/9/06	22.50	477 520						477 520	Feb 12
	Altron CRI	11/22/06	30.75	—	67 338					67 338	Nov 12
Dr HA Serebro	Altron	9/2/96	6.10	2 880		2 880	10/31/06*	63	28.50	—	Sept 06
N Claussen	Altron	10/1/02	7.25	19 600						19 600	Oct 12
	Altron	7/27/04	11.20	115 100						115 100	Jul 10
	Altron CRI	2/9/06	22.50	466 190						466 190	Feb 12
	Altron CRI	11/22/06	30.75	—	151 560					151 560	Nov 12
PD Redshaw	Altron	12/20/96	4.80	6 000		6 000	12/20/06	156	31.40	—	Dec 06
	BTG	8/14/00	4.50	833 333		186 490	11/13/06	1 553	12.93	646 843	Aug 07
	BTG	9/26/01	2.90	166 667						166 667	Sept 08
	BTG	10/10/02	3.85	100 000						100 000	Oct 09
	BTG	8/20/04	5.58	477 100						477 100	Aug 11
	BTG CRI	2/15/06	11.56	1 234 000						1 234 000	Feb 12
PMO Curle	Altech	3/14/02	20.35	6 667		3 333	6/8/06	106	53.00	3 334	Mar 08
	Altech	8/31/04	32.25	40 000						40 000	Aug 10
	Altech CRI	12/15/05	50.99	219 460						219 460	Dec 11
	Altech CRI	11/22/06	57.75	—	20 232					20 232	Nov 12
RE Venter	Altron	6/28/00	4.85	534 650						534 650	Jun 10
	Altron	10/1/02	7.25	90 734						90 734	Oct 12
	Altron	7/27/04	11.20	368 500						368 500	Jul 10
	Altron CRI	2/9/06	22.50	837 360						837 360	Feb 12
	Altron CRI	11/22/06	30.75	—	156 186					156 186	Nov 12
Dr WP Venter	Altron	9/2/96	6.10	4 800		4 800	11/15/06*	108	29.21	—	Sept 06

CRI - conditional rights

*Participants are afforded a reasonable period after a closed period ends in which to exercise share options which lapsed during the closed period.