

Remuneration report

Remuneration report

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 salaried employees as opposed to the cash package approach adopted in prior years. In essence this means that salary and bonus increases expressed as a percentage are based on TCOE as opposed to the cash element only.

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 philosophy 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.

The group policy for each executive director prescribes a remuneration package based on TCOE. This is made up of a cash portion, an ability to earn a cash bonus, long-term incentives through participation in share incentive schemes or similar instruments, pension contributions, medical aid benefits and optional 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, in particular the short-term incentives, is intended to provide superior general pay opportunities based on overall corporate performance, as well as individual reward for individual performance.

Long-term incentives have been based on multiples of TCOE and are structured to align with shareholders' interests.

These policies and practices are regularly reviewed. Altron keeps abreast of and 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 is comprised mostly of independent non-executive directors and is chaired by Jacob Modise (independent non-executive). Other members are Mark Lamberti, Myron Berzack, Peter Wilmot and Altron chairman, Dr Bill Venter. The latter appointment is consistent with the changes made to the 2003 Combined Code (UK) which allows the chairman of the company to sit on the remuneration committee.

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 in conjunction with the board 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.

The current chairman, Jacob Modise, was appointed as chairman of this committee on 1 February 2006.

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 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 are appropriately competitive;
- ▶ recommending the level of non-executive directors' fees to the board, after receiving input from the executive directors and market surveys, for ultimate approval by shareholders;
- ▶ balancing the interests of shareholders with the financial and commercial viability of the group; and
- ▶ scrutinising all other benefits and other financial arrangements to ensure they are justified, market-related and disclosed in a transparent manner.

Altron's listed subsidiary, Altech has its own remuneration committee which reviews and recommends remuneration and related awards for its executive directors and senior management, to the Altech board and within the parameters of group policies. Remuneration packages of those executives of Altech, Bytes and Powertech who are also members of the Altron executive committee, 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 resolved to conduct self-assessment exercises into its effectiveness every other year as opposed to annually.

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.

Areas for improvement identified as a result of the 2007/8 self-evaluation included 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. During the review period the committee were regularly appraised on recent trends regarding senior executive pay practices and received frequent articles and updates on, among others, policy and practice affecting non-executive directors' remuneration, international remuneration trends and practices and remuneration committees, including the governance thereof.

A further consideration identified by the remuneration committee as a result of the self-evaluation exercise conducted in 2007, included the need to continue to focus on succession planning throughout the group. During the review period a formal policy on succession planning was adopted by the board, and a diligent exercise conducted at both Altron and each of its subholdings to identify at least two potential successors for each key executive and senior manager position throughout the group. This process is reviewed bi-annually and has been made a standing item on each nomination committee meeting agenda.

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. These include among others, 21st Century Business and Pay Solutions, The Hay Group, and PE Corporate Services SA (Pty) Limited. In addition, the committee frequently reviews remuneration and board best practice reports published by Spencer Stuart and PricewaterhouseCoopers. 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 TCOE packages of executive directors at its meeting in February

Remuneration report *continued*

2008. The packages 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 follows the provisions of the King Code of Corporate Practices and Conduct relating to executive directors' remuneration, and is further guided by the ABI Guidelines on Executive Remuneration Policies and Practices. The overarching principles that the remuneration committee has applied during 2007 towards executive remuneration, and those which it intends to continue applying, 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, motivate 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, ie 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 is 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 Altron 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

TCOE. Other executive directors and executive committee members may earn between 45% – 65% of their TCOE.

Group and subsidiary financial performance targets include:

- ▶ headline earnings per share growth;
- ▶ return on net assets;
- ▶ return on equity; and
- ▶ 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.

These key performance indicators include responsibility for, among others:

- ▶ **Group strategy** – driving and implementing it, monitoring progress and ensuring all executives are aligned to it;
- ▶ **Performance management** – instilling a performance and “familiness” culture;
- ▶ **Growth** – driving the growth strategy into new market segments and geographical areas; and
- ▶ **Succession planning and talent management** – identifying new and skilled/semi-skilled talent for the business and maximising existing talent, all while being mindful of succession planning throughout the group and managing the transformation agenda.

During February 2008, the remuneration committee resolved that in respect of the 2008/9 financial year 70% of the executive committee members' performance bonuses will be based on financial objectives, with 30% relating to the attainment by each member of certain predetermined key performance indicators. It is envisaged that between 10% – 20% of the 30% discretionary component will be assigned to the achievement of predetermined broad-based black economic empowerment targets for each executive's area of responsibility.

At its meeting in May 2007, 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, Bytes 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 – 7.5 x base salary for Altron executive committee members. As a result of adopting TCOE, the aforesaid multiples have been reduced to 7 x TCOE for the chief executive and 5.3 – 6.4 x TCOE 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 3, 4 and 5. 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 or conditional rights, based on both corporate and individual performance, may be granted annually to ensure that the multiple of TCOE parameter reflects increases in TCOE.

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 a 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 pensionable salary of these individuals. The value of contributions for each executive director appears in the summary of directors' emoluments on page 112.

None of the non-executive directors of Altron contributed to any group pension fund during 2007 or had any accrued pension fund benefits in the Altron Group Pension Fund at 29 February 2008.

At its meeting in February 2008, the remuneration committee assessed the levels of funding of the Altron Group Pension

Fund and Altron Medical Aid and satisfied itself that both were solvent and did not pose a risk to any of the group's employees or retirees.

Other benefits

In addition to the benefits which executive directors receive as part of their TCOE packages, they also receive a death-in-service benefit.

Non-executive directors' fees

The fees of non-executive directors are recommended by the remuneration committee, confirmed by the executive director component of the Altron board, and approved by shareholders at the annual general meeting. Fees for the 2007/8 financial year were reviewed and revised in February 2007, with the basic annual non-executive director fee set at R105 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); and
- ▶ 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 the various committees for the review period were:

Audit committee:	
– chairman	R72 500
– member	R34 000
Nomination committee:	
– chairman	R13 000
– member	R13 000
Remuneration committee:	
– chairman	R55 000
– member	R34 000
Risk management committee:	
– chairman	R55 000
– member	R27 500

Remuneration report *continued*

DISCLOSURE OF DIRECTORS' EMOLUMENTS

Non-executive directors			2008	2007
	Subsidiaries	Altron	Total R'000	Total R'000
Fees for services as directors				
MC Berzack		152	152	137
MJ Leeming		207	207	187
MJ Lamberti		159	159	125
JRD Modise		194	194	175
Dr PM Maduna		118	118	107
DC Mpfu		—	—	50
BJM Masekela		9	9	—
PL Wilmot	353	239	592	520
	353	1 078	1 431	1 301

R'000							2008 Total
	Basic salary	Perform- ance related bonuses (Accrued)	Share option expense*	Allow- ances	Defined contri- bution pension payments	Other benefits	
Full-time directors							
Chairman							
Dr WP Venter	3 409	—	—	120	—	1 648	5 177
Executive							
Dr HA Serebro	1 181	—	—	91	—	—	1 272
RE Venter	4 439	4 331	1 682	108	609	—	11 169
DC Radley	2 723	—	876	140	381	—	4 120
CG Venter	3 407	2 659	1 409	262	459	—	8 196
PD Redshaw	2 930	2 288	2 003	—	424	192	7 837
PMO Curle	1 849	1 232	860	127	264	—	4 332
N Claussen	2 275	2 100	1 037	198	332	—	5 942
	22 213	12 610	7 867	1 046	2 469	1 840	48 045

R'000							2007 Total
	Basic salary	Perform- ance related bonuses (Accrued)	Share option expense*	Allow- ances	Defined contri- bution pension payments	Other benefits	
Full-time directors							
Chairman							
Dr WP Venter	3 249	—	—	120	—	1 947	5 316
Executive							
Dr HA Serebro	1 158	—	—	90	—	8	1 256
RE Venter	3 714	2 875	1 472	120	446	156	8 783
DC Radley	2 411	1 645	783	120	289	25	5 273
CG Venter	2 845	2 020	1 275	262	341	185	6 928
PD Redshaw	2 663	1 832	1 222	—	320	176	6 213
PMO Curle	1 687	998	815	127	202	56	3 885
N Claussen	1 941	1 506	802	198	233	23	4 703
	19 668	10 876	6 369	1 037	1 831	2 576	42 357

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

DIRECTORS' OPTIONS

	Entity	Purchase date	Strike price	Balance 1 Mar 2007	Awarded	Lapsed	Exercised	Exercise date	Net gains R'000	Exercise price	Balance 29 Feb 2008	Expiry date
CG Venter	Altech	18/4/2000	12.80	53 178			53 178	24/4/2007	2 951	68.30	—	Apr 10
	Altech	14/3/2002	20.35	37 734			37 734	9/5/2007	1 814	68.43	—	Mar 08
	Altech	31/8/2004	32.25	63 500							63 500	Aug 10
	Altech CRI	15/12/2005	50.99	337 100							337 100	Dec 11
	Altech CRI	22/11/2006	57.75	53 775							53 775	Nov 12
	Altech CRI	21/1/2008	49.00		94 092						94 092	Feb 14
DC Radley	Altron	1/10/2002	7.25	625 267			625 267	22/6/2007 and 3/12/2007	23 743	45.22	—	Oct 12
	Altron	27/7/2004	11.20	134 100		89 400	44 700	31/7/2007	1 551	45.90	—	Jul 10
	Altron CRI	9/2/2006	22.50	477 520		477 520					—	Feb 12
	Altron CRI	22/11/2006	30.75	67 338		67 338					—	Nov 12
N Claussen	Altron	1/10/2002	7.25	19 600							19 600	Oct 12
	Altron	27/7/2004	11.20	115 100							115 100	Jul 10
	Altron CRI	9/2/2006	22.50	466 190							466 190	Feb 12
	Altron CRI	22/11/2006	30.75	151 560							151 560	Nov 12
	Altron CRI	28/2/2008	35.50		46 295						46 295	Feb 14
PD Redshaw	Bytes	14/8/2000	4.50	646 843			646 843	5/8/2007	7 115	15.50	—	Aug 07
	Bytes	26/9/2001	2.90	166 667		166 667					—	Sep 08
	Altron	14/1/2008	6.66	72 609	Conversion						72 609	Sep 08
	Bytes	10/10/2002	3.85	100 000		100 000					—	Oct 09
	Altron	14/1/2008	8.84	43 565	Conversion						43 565	Oct 09
	Bytes	20/8/2004	5.58	477 100		477 100					—	Aug 11
	Altron	14/1/2008	12.80	207 849	Conversion						207 849	Aug 11
	Bytes CRI	15/2/2006	11.56	1 234 000		1 234 000					—	Feb 12
	Altron CRI	14/1/2008	26.54	537 592	Conversion						537 592	Feb 12
	Altron CRI	27/2/2008	35.00		281 500						281 500	Feb 14
PMO Curle	Altech	14/3/2002	20.35	3 334			3 334	23/5/2007	159	68.00	—	Mar 08
	Altech	31/8/2004	32.25	40 000							40 000	Aug 10
	Altech CRI	15/12/2005	50.99	219 460							219 460	Dec 11
	Altech CRI	22/11/2006	57.75	20 232							20 232	Nov 12
RE Venter	Altron	28/6/2000	4.85	534 650			117 900	31/7/2008 and 25/1/2008	4 378	41.98	416 750	Jun 10
	Altron	1/10/2002	7.25	90 734			90 734	25/1/2008 and 21/6/2007	3 338	44.04	—	Oct 12
	Altron	27/7/2004	11.20	368 500			122 833	25/1/2008	3 504	39.73	245 667	Jul 10
	Altron CRI	9/2/2006	22.50	837 360							837 360	Feb 12
	Altron CRI	22/11/2006	30.75	156 186							156 186	Nov 12
	Altron CRI	25/2/2008	35.00		381 457						381 457	Feb 14

CRI – conditional rights.

*PD Redshaw's Bytes share options and conditional rights were converted to Altron participating preference share options and conditional rights as a result of the Bytes scheme of arrangement. These were converted in accordance with the swap ratio of 0.43565.