

Remuneration report – 2008/2009

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, 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.

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-average industry 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.

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 mainly of independent non-executive directors and is chaired by Jacob Modise (independent non-executive). Other members are Norman Adami, 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.

Subsequent to the resignation of Mark Lamberti from the committee in July 2008, Norman Adami, an independent non-executive director of Altron, was appointed as a member of the Altron remuneration committee on 15 April 2009.

Composition and proceedings

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

The committee chairman reports formally to the board on its proceedings after each meeting of the committee and attends the annual general meeting to respond to any questions from shareholders regarding the committee's areas of responsibility.

Role

The committee operates under a board-approved mandate and terms of reference, updated during the review 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
- » 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.

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Self-evaluation

During the period under review, the committee conducted a self-assessment exercise into its effectiveness. These exercises are conducted by the committee every other year and provide members with the opportunity to identify areas of weakness (and strength) regarding their functioning and to implement and adopt appropriate remedial measures to address weaknesses.

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 2008/2009 self-evaluation included:-

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

With the ever-changing dynamics of the global economy and shifting shareholder and employee expectations, training will assist the committee in dealing with and negotiating increasingly complex, performance-driven reward packages. During the review period the committee was regularly appraised by Mabili Consulting on recent trends regarding senior executive pay practices which formed the basis of the new incentive schemes approved by shareholders on 11 May 2009. The committee also received frequent articles and updates on, among others, policy and practice affecting non-executive directors' remuneration, international remuneration trends and practices as well as remuneration committees, including the governance thereof.

A further consideration identified by the remuneration committee as a result of the self-evaluation exercise conducted during the review period, included the need to continue to focus on succession planning throughout the group. During 2008/2009 a formal policy on succession planning was adopted by the board, and a diligent exercise conducted at both Altron and each of its subholding groups 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 and severance arrangements

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.



Altron's policy when terminating the services of an individual for operational reasons is to pay a minimum of two weeks of the annual TCOE for each completed year of service.

Altron aims to apply the above policy to all employees, including Altron executive directors, but is subject to negotiation in special circumstances.

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, Mabili Consulting, 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.

During the review period and following the resignation of Diane Radley, the erstwhile chief financial officer of Altron, Spencer Stuart assisted Altron in identifying and interviewing potential successors for this position.

Except for proffering advice and guidance on remuneration-related matters and Spencer Stuart assisting Altron in identifying a potential successor for the chief financial officer position at Altron, none of the aforementioned remuneration consultants have any other connection with or interest (whether economic, financial or otherwise) in Altron.

Executive directors' remuneration

The remuneration committee reviewed and revised the TCOE packages of executive directors at its meeting in February 2009. 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 the 2008/2009 financial year towards executive remuneration, and those which it intends to continue applying, are as follows:

- » to ensure remuneration drives the overall key business strategies and creates 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



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- » 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 which satisfies itself that the performance criteria utilised are relevant, stretching and designed to enhance shareholder value. 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 55% to 65% of their TCOE.

Group and subsidiary financial performance targets include:

- » headline earnings per share growth
- » return on operating assets
- » return on equity
- » a discretionary portion equal to 30% of their bonus which includes specific key performance areas and stretch targets for each executive to attain.

These targets vary according to individual company needs. In all cases, 70% 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 the following:

- » *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
- » *Succession planning and talent management* – identifying new and skilled/semi-skilled talent into the business and maximising existing talent, all while being mindful of succession planning throughout the group and managing the transformation agenda.

During February 2009, the remuneration committee resolved that in respect of the 2009/2010 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. Between 10% and 20% of the 30% discretionary component is assigned to the achievement of predetermined broad-based black economic empowerment targets for each executive's area of responsibility.

At its meeting in May 2008, 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. Annual performance bonuses are not guaranteed, they are discretionary and vary according to each individual's performance achievement. Performance measures are stringently monitored and executives are penalised in cases where targets are missed.

The remuneration committee recently, in conjunction with remuneration consultants, amended Altron's annual incentive plan to ensure that the same aligns with best practice and that executive directors and senior management who outperform stretch targets are appropriately rewarded subject to stipulated capping limits.

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 to 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 to 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.

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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.

During the review period, the remuneration committee, in conjunction with remuneration consultants engaged in an exercise to review and amend Altron's long-term incentive plan. Areas which the committee focused on in designing a new share incentive plan included inter alia the following:-

- » Ensuring that a significant proportion of executive directors remuneration is structured so as to link rewards to corporate and individual performance, thereby aligning their interests with the shareholders
- » Limiting the effects of dilution of shareholders' equity and on the participation of individuals in the scheme
- » Structuring the new scheme to include phased grants and the award of grants on a sliding scale according to performance
- » Awards to be granted will be conditional on meeting specified performance criteria. The greater the level of the potential award, the more stretching and demanding the performance criteria will be. Total Shareholder Return (TSR) relative to a suitable index and/or peer group will be considered as part of the performance criterion
- » Measuring the performance criteria over a period of 3 to 6 years in order to motivate participants to achieve sustained improvements in financial performance.

Further details in respect of this new share incentive plan were included in the circular posted to shareholders on or about 17 April 2009 seeking approval from shareholders of the plan at the general meeting to be held on 11 May 2009.

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 120.

None of the non-executive directors of Altron contributed to any group pension fund during 2008 or had any accrued pension fund benefits in the Altron Group Pension Fund at 28 February 2009.

At its meeting in February 2009, the remuneration committee assessed the levels of funding and benefits of the Altron Group Pension Fund and Medical Aid Scheme 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 2008/2009 financial year were reviewed and revised in February 2008, with the basic annual non-executive director fee set at R115 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.

At Altron's annual general meeting to be held on 14 July 2009, shareholders will be required to approve the non-executive director fees set out in the notice of annual general meeting on page 217 of this annual report. The board has resolved that with effect from 1 September 2009, non-executive directors' fees, will in future, be split between an annual retainer and an attendance fee component.

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

Audit committee	
– chairman	R80 000
– member	R37 500
Nomination committee	
– chairman	R60 000
– member	R14 500
Remuneration committee	
– chairman	R60 000
– member	R37 500
Risk management committee	
– chairman	R60 000
– member	R30 000

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Disclosure of directors' emoluments

R'000		Subsidiaries	Altron	2009 Total	2008 Total
Non-executive directors					
Fees for services as directors					
	MC Berzack		167	167	152
	MJ Leeming	45	227	272	207
	MJ Lamberti		79	79	159
	JRD Modise		213	213	194
	Dr PM Maduna		175	175	118
	NJ Adami		38	38	—
	DNM Makhobo		38	38	—
	BJM Masekela		123	123	9
	PL Wilmot	60	263	323	592
		105	1 323	1 428	1 431

R'000		Performance related bonuses (Accrued)	Share option expense [#]	Allowances	Defined contribution pension payments	Other benefits	2009 Total
Full-time directors							
Chairman							
	Dr WP Venter	3 306	—	120	—	1 419	4 845
Executive							
	Dr HA Serebro	1 032	—	85	—	—	1 117
	RE Venter	4 931	1 901	108	682	—	10 084
	AMR Smith*	1 222	92	30	148	—	2 183
	CG Venter	3 837	3 913	262	517	—	10 114
	PD Redshaw	3 139	1 441	—	460	264	6 754
	PMO Curle	2 043	1 933	127	290	—	5 183
	N Claussen	2 522	582	198	365	—	4 787
		22 032	10 461	7 499	2 462	1 683	45 067

R'000		Performance related bonuses (Accrued)	Share option expense [#]	Allowances	Defined contribution pension payments	Other benefits	2008 Total
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	108	609	—	11 169
	DC Radley	2 723	876	140	381	—	4 120
	CG Venter	3 407	2 659	262	459	—	8 196
	PD Redshaw	2 930	2 288	—	424	192	7 837
	PMO Curle	1 849	1 232	127	264	—	4 332
	N Claussen	2 275	2 100	198	332	—	5 942
		22 213	12 610	7 867	2 469	1 840	48 045

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

*Appointed 1 August 2008



Directors' options

	Entity	Purchase date	Strike price R	Balance 1 March 2008	Awarded	Lapsed	Exercised	Exercise date	Net gains R'000	Exercise price R	Balance 28 Feb 2009	Expiry date
CG Venter	Altech	31/08/04	32.25	63 500							63 500	Aug 10
	Altech CRI	15/12/05	50.99	337 100							337 100	Dec 11
	Altech CRI	22/11/06	57.75	53 775							53 775	Nov 12
	Altech CRI	20/02/08	49.00	94 092							94 092	Feb 14
AMR Smith	Altron CRI	09/02/06	22.50	58 400							58 400	Feb 12
	Altron CRI	22/11/06	30.75	1 508							1 508	Nov 12
	Altron CRI	26/02/08	35.00	32 766							32 766	Feb 14
N Claussen	Altron	27/07/04	11.20	115 100							115 100	Jul 10
	Altron CRI	09/02/06	22.50	466 190							466 190	Feb 12
	Altron CRI	22/11/06	30.75	151 560							151 560	Nov 12
	Altron CRI	28/02/08	35.50	46 295							46 295	Feb 14
PD Redshaw	Altron	14/01/08	6.66	72 609			72 609	08/05/08	2 220	37.23	—	Sept 08
	Altron	14/01/08	8.84	43 565			43 565	08/05/08	1 237	37.23	—	Oct 09
	Altron	14/01/08	12.80	207 849			207 849	05/06/08	5 654	40.00	—	Aug 11
	Altron CRI	14/01/08	26.54	537 592							537 592	Feb 12
	Altron CRI	27/02/08	35.00	281 500							281 500	Feb 14
PMO Curle	Altech	31/08/04	32.25	40 000			26 666	13/06/08 and 20/10/08	471	49.91	13 334	Aug 10
	Altech CRI	15/12/05	50.99	219 460							219 460	Dec 11
	Altech CRI	22/11/06	57.75	20 232							20 232	Nov 12
RE Venter	Altron	28/06/00	4.85	416 750			307 962	19/06/08	10 643	39.41	108 788	Jun 10
	Altron	27/07/04	11.20	245 667							245 667	Jul 10
	Altron CRI	09/02/06	22.50	837 360							837 360	Feb 12
	Altron CRI	22/11/06	30.75	156 186							156 186	Nov 12
	Altron CRI	25/02/08	35.00	381 457							381 457	Feb 14

CRI – conditional rights.