aspen
HOLDINGS

Aspen Pharmacare Holdings Limited

Annual Report 2012

Remuneration report

The Remuneration & Nomination Committee, a sub-committee of the Board, assists the Board, *inter alia*, in ensuring that:

- the Board has the appropriate composition for it to execute its duties effectively;
- directors are appointed through a formal process;
- the formal induction and ongoing training and development of directors takes place;
- an annual evaluation of the performance of the Board, the Board Committees, the Chairman, the Group Chief Executive, the Company Secretary and each of the individual directors is conducted;
- the formal succession plans for the Board, the Chairman of the Board, Group Chief Executive, Deputy Group Chief Executive/Financial Director and senior management are reviewed and approved;
- the remuneration policy and remuneration levels are appropriately set across the Group;
- the Group remunerates each director and each executive fairly and responsibly; and
- the disclosure of directors and remuneration is accurate, complete and transparent.

REMUNERATION & NOMINATION COMMITTEE TERMS OF REFERENCE

The Remuneration & Nomination Committee has adopted formal Terms of Reference as incorporated in the Board Charter which have been approved by the Board of Directors. The Terms of Reference are reviewed annually and were revised and approved by the Board on 1 December 2011. The Committee has conducted its affairs in compliance with these Terms of Reference and has discharged its responsibilities contained therein.

REMUNERATION & NOMINATION COMMITTEE MEMBERS AND ATTENDANCE AT MEETINGS

In applying the recommendations of King III, the Remuneration & Nomination Committee consists of a majority of independent non-executive directors, one of whom chairs the Committee's meetings. Members and the Chairman of this Committee are elected by the Board.

The Chairman of the Board is a member of this Committee and the Group Chief Executive, Deputy Group Chief Executive and Company Secretary attend meetings by invitation. From time-to-time other executives of the Group attend meetings of the Committee as requested.

In accordance with the Terms of Reference, the Committee meets at least three times annually, but more often if necessary. During the current financial year, the Committee met three times. The minutes of these meetings are included in the quarterly Board papers. The Chairman of the Committee provides the Board with a verbal report of the Committee's activities at each Board meeting. The following table of attendance at Remuneration & Nomination Committee meetings reflects the Committee's meetings held during the year and the attendance of these meetings by its members during the year:

Committee member	15 July 2011	6 March 2012	12 July 2012
Roy Andersen (Chairman)	✓	✓	✓
John Buchanan	✓	✓	✓
Judy Dlamini	✓	✓	✓

The Chairman of the Committee represents the Remuneration & Nomination Committee at the annual general meeting each year.

The Company Secretary is also the Secretary of the Committee.

REMUNERATION PHILOSOPHY AND POLICY

The Group strives to retain its competitive advantage in the global pharmaceutical industry through the attraction and retention of high-calibre individuals, who not only have the required technical qualifications and experience, but who also demonstrate the desired behavioural traits which fit the Group's entrepreneurial and dynamic culture.

The Group remains cognisant of the importance of finding the proper balance between keeping its employees appropriately rewarded and motivated and balancing the financial considerations of the Group's shareholders in the medium term. The Group makes reference to independent surveys, publicly available economic data and marketplace intelligence in endeavouring to set remuneration packages that are competitive as well as industry and market related. In awarding annual salary increases and incentive payments to employees, consideration is given to an employee's performance and the financial performance of the Group company in which he or she is employed. Consideration is also given to the economic conditions impacting the industry and the geographical market in which the employee is based.

Executive and management remuneration principles

The remuneration philosophy of the Aspen Group is aimed at driving the Group's high-performance culture. Remuneration packages are directly linked to individual and Company performance. Executive and management remuneration is formulated in a manner which aligns the rewards of these employees with changes in the value delivered to the Group's stakeholders and further recognises exceptional individual contributions. The remuneration packages of executives and management are accordingly made up of fixed, variable and medium-term incentive elements, as follows:

Base salary

This is the fixed portion of the remuneration package which is payable in cash, is reviewed annually and in circumstances where the executive or manager has changed responsibilities or has relocated.

Annual incentive

This variable portion of remuneration increases as a proportion of maximum potential earnings as the executive or manager reaches higher levels of seniority. Payable in cash, the entitlement to and the quantum of the annual incentive is determined according to the achievement of predetermined performance targets by the employee and by the Group company in which the executive or manager is employed.

The annual incentive is capped in value. The cap on the annual incentive for executives and managers varies between countries of employment, but does not in any instance exceed 30% of the total remuneration cost (excluding incentives).

A further discretionary bonus may be paid in cash to employees who are considered by the Remuneration & Nomination Committee to have rendered exceptional service in any given year. These discretionary bonuses have never exceeded 10% of any recipient's total remuneration and a limited number of these bonuses have been paid in respect of the year under review.

Medium-term incentive

This is applicable to selected employees in Group companies which exceed agreed performance criteria. The medium-term incentive vests three years after award on condition that the executive or manager concerned remains in the employ of the Group. However, should the employee retire within the three-year period, the medium-term incentive will be accelerated to the date of retirement. The medium-term incentive scheme thus plays a direct role in facilitating the Group's retention objectives. The medium-term incentive is determined according to the achievement of predetermined performance targets by the executive or manager and by the Group company in which they are employed. Individual performance is assessed against preset key performance measures and company performance is assessed relative to the operating profit budget of the company for which the employee works. In South Africa the medium-term incentive is payable in cash or shares, at the employee's election. In all other qualifying territories, the medium-term incentive is payable in cash under the principles of a phantom share scheme.

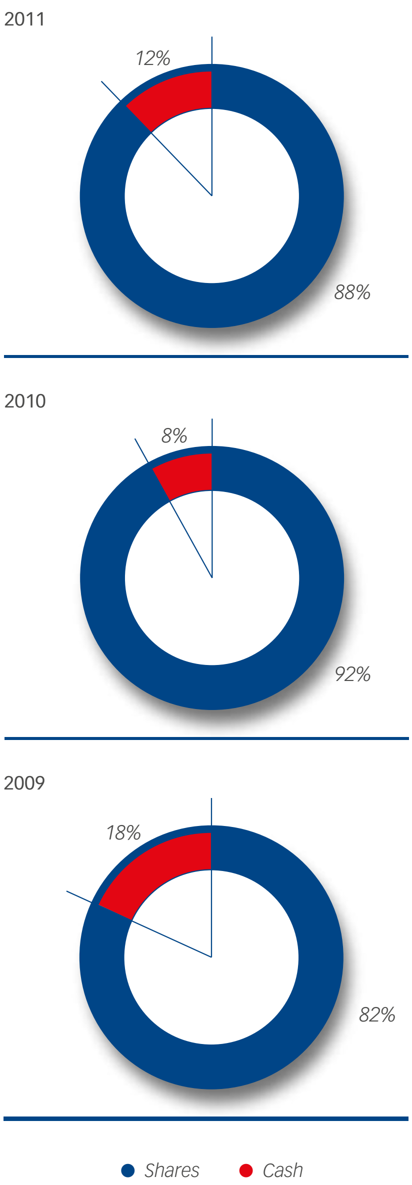
The medium-term incentive scheme is also capped in respect of the value that can be awarded, with this cap varying according to the level of seniority of the executive or manager and territory of employment. The maximum award does not exceed 33% of the total remuneration cost (excluding incentives) in any instance. These medium-term incentives are awarded under the following schemes currently in operation:

The Aspen South African Management Deferred Incentive Bonus Scheme

The scheme is designed to acknowledge performance and reward individuals for achievement of both the eligible employee's employer company within the Group and individual performance for the trading period immediately preceding the date that the award is made. This scheme is also aimed at ensuring critical executive and professional skills retention and enhancing congruence between the interests of senior employees and shareholders. The eligible employee is given the choice at the date of the award to receive the deferred incentive bonus either in cash or Aspen shares. These awards vest three years after the date of the award. An enhancement of 10% is given to employees who elect to receive the award in shares. Alignment between shareholder and employee interests has been successful as most eligible employees have historically elected to receive the value of the award in Aspen shares as graphically reflected on page 102 of this report.

Remuneration report continued

The value of deferred incentive awards taken in shares versus value of deferred incentive awards taken in cash over the past three years is reflected below.



** Includes incentive awards taken in shares by executive directors.*

To the extent that an employee elects to receive shares pursuant to the award, these shares are bought on the open market by the relevant Group company to avoid the dilution of shareholders and are awarded to employees in terms of the existing Aspen Share Incentive Scheme. Shares awarded in terms of this scheme vest three years after the date of the award. The rules of the scheme specifically prohibit the re-pricing of awards to cater for unfavourable fluctuations in the share price. The rules of the scheme also provide that the Remuneration & Nomination Committee may amend the rules of the scheme at any time, provided that no such amendment may adversely affect the vested rights of the participants of the scheme unless their prior written consent is obtained. All material amendments are also subject to the approval of shareholders and the JSE.

The Aspen International Phantom Share Scheme

In order to incentivise the management of Aspen's International businesses in the medium term, a phantom share scheme exists for selected international employees. Awards are linked to performance of the employee, the business and growth in the Aspen share price. The scheme has been designed to incentivise managers for the medium term, align their goals with those of the Aspen Group and to match their reward to movements in the Aspen share price. Due to regulatory restrictions in respect of transfer and ownership of Aspen shares to offshore employees, the scheme is operated on a phantom basis, which is designed to give an employee the same economic benefit as ownership of shares. The phantom shares entitle eligible employees to receive a bonus based initially on a predetermined value and thereafter on changes in the Aspen share price. As this scheme does not result in the issue of shares or other Company securities, it is not regulated by the JSE, it does not require shareholder approval and it does not lead to dilution in shareholding.

In determining annual incentives, the Remuneration & Nomination Committee has the discretion to exclude factors and extraordinary events which are beyond the control of the Group, but which may nevertheless favourably or adversely impact the Group's performance. Accordingly, extraneous factors may be excluded in the calculation of incentives for the executive directors and other members of executive management at the discretion of the Committee.

Legacy share schemes

The following share schemes are still operational in terms of awards which were previously made. No new awards are being made under the schemes other than awards of share appreciation rights to two executives in terms of existing contractual arrangements.

> Aspen Share Incentive Scheme

The scheme was adopted by shareholders in January 1999. In terms of the scheme adopted, and subsequent amendments, share options were granted to management and key employees. Participants in the scheme are entitled to take release of the options granted in five equal annual tranches, commencing on the second anniversary of the date granted and expiring on the eighth anniversary of the grant date. To the extent that outstanding share options are exercised on or after vesting date, the appropriate number of shares will be listed and awarded to the participant.

> Aspen Share Appreciation Plan

The plan was adopted by shareholders in October 2005. In terms of the plan, share appreciation rights are awarded to key management. Participants are awarded rights to receive shares in the Company equivalent to an amount calculated by reference to the increase in value of the rights between the date of the grant and the date of exercise of the rights. The rights vest on the third anniversary of the award date and expire on the fifth anniversary of that date. To the extent that outstanding share appreciation rights are exercised on or after vesting date, the appropriate number of shares will be listed and awarded to the participant.

> Aspen South African Workers' Share Plan

The Workers' Share Plan was adopted by shareholders in October 2005. In terms of the plan, all South African employees employed by the Company for a full year on a permanent basis were issued shares in the Company to the value of R9 000 each over a period of three years. The shares vested immediately but are subject to a lock-up period of one year. The last tranche of this plan was issued in July 2009.

The maximum number of shares that can be issued in terms of these legacy share schemes which are operated by the Group is currently limited to 64 741 611 (14% of the Company's issued share capital), and the maximum number of shares issued to any single employee is limited to 6 474 161 shares. These limits were approved by shareholders at the annual general meeting held on 26 November 2010. Since this approval was granted, 3 930 616 shares have been issued in terms of these legacy schemes, representing 0,9% of the Company's issued share capital. From the date of inception of these schemes in 2001, 37 474 749 shares have been issued under the schemes comprising 8,24% of issued share capital. This constitutes an average dilution rate of less than 1% per year. As future issues of shares under the legacy share schemes in terms of existing incentive arrangements will be relatively small, the approval of shareholders will be sought at the upcoming annual general meeting to reduce the limit of future shares issues in terms of these legacy share schemes from the current level of 14% to 10% of issued share capital.

A detailed indication of the maximum number of shares that may result from awards granted in terms of the Share Incentive Scheme is contained in note 15 of the Group Annual Financial Statements. The number of shares that may result from awards made under the Share Appreciation Plan can only be determined at the date of exercise. Refer to note 15 of the Group Annual Financial Statements.

The Group's management incentive schemes are approved by the Remuneration & Nomination Committee which reports to the Board on all approved schemes.

Benefits

Benefits vary from country to country depending on customs and regulations. Benefits include retirement funding, medical insurance and life and disability insurance. A limited number of employees in South Africa are entitled to post-retirement health benefits (as a consequence of contractual obligations assumed from predecessor companies). Aspen has never offered post-retirement health benefits, but has assumed obligations for retirement health benefits through various acquisitions.

Retirement fund contributions – South African operations

The Group's policy is to contribute to retirement funds by payment to separate funds which are statutorily independent from the Group.

In South Africa, employees, other than those required by legislation to be members of various industry-related funds, are covered by way of defined contribution provident funds governed by the Pension Funds Act, 1956, with varying contributions. Benefits are determined in proportion to each member's equitable share of the total assets of the funds on termination of membership.

Retirement fund contributions – International businesses

Australian law controls the requirements for Aspen Australia to contribute a minimum payment to superannuation funds of the employee's choice. Aspen Australia complies with its legal obligations in this regard.

In Mauritius, it is a prerequisite of an employee's employment contract that the employee independently procures adequate retirement assurance. The employee must cover the costs and expenses in relation to his/her retirement requirements.

Remuneration report continued

In Brazil, employees are covered by the Brazilian Social Security Scheme in terms whereof they receive a retirement, retrenchment or disability benefit depending on their age and period of contribution. Aspen Brazil contributes 28,8% of the employee's salary while the employee contributes between 8% and 11%, limited to BRL430,78 per month, of his or her salary depending on the employee's remuneration level.

In Uganda, there is a statutory requirement that all permanent employees must belong to a provident fund. The employee contributes 5% and the employer 10% of the employee's gross salary.

In Kenya, a statutory requirement provides that all employees must contribute KES200 to the National Social Security Fund on a monthly basis, with the employer matching this contribution. A retirement benefit scheme is also in place for all permanent employees in terms whereof these employees contribute 5% of their gross monthly salary and the employer contributes 8% of the employees' gross monthly salary to this scheme.

In Tanzania, retirement benefits are generally covered by the Employment and Labour Relations Act, 2004. Contribution to a selection fund is 20% of either basic or gross salary depending on the Pension Funds Act. Employers are obliged to register their employees with a pension fund. Further, legislation allows additional, separate industrial arrangements between employers and employees, provided such arrangements do not contravene the governing laws.

In Mexico, the Salary and Labour Benefit Scheme in place does not yet include a private pension plan or retirement funding. However, companies are subject to the mandatory occupational pension programme ("Sistema de Ahorro para el Retiro") for which the employer absorbs 100% of the contribution, calculated on 2% of each employee's salary.

In Venezuela, the Salary and Labour Benefit Scheme in place does not yet include a private pension plan or retirement funding. However, companies are subject to a mandatory contribution to a social security plan which includes an employee contribution of 2% of the employee's salary. When employees attain 55 years of age in the case of female and 60 years of age in the case of male employees they receive a monthly pension that is currently equal to the statutory minimum salary. To be eligible for this benefit, employees must have completed 650 weeks of combined employment.

In Germany, a compulsory state pension fund affords the employee a pension equivalent to approximately 80% of the employee's last salary prior to retirement. The Company pension fund serves as a top-up for the shortfall in earnings after retirement. As part of existing terms of employment, Aspen Bad Oldesloe contributes an average of 2,5% of the income of the employee with a corresponding contribution by the employee not being required. The return on the fund is based on the AAA Euro Bonds yield. In terms of the scheme rules, surpluses are reviewed every 10 years and credited to the employee's pension fund.

Executive directors

The principles in terms of which the remuneration packages of the Group's executive directors are determined mirror those applicable to other executives and management. Executive directors accordingly receive a base salary, an annual incentive and a medium-term incentive which are determined in accordance with the principles applicable to executives and management and are calculated as set out on page 107 of this report. In the case of the executive directors, the maximum annual incentive is 100% of their total remuneration cost (excluding incentives).

In terms of their service contracts, executive directors receive no additional remuneration on account of their being directors of the Company.

Executive directors' annual incentive bonuses are recommended by the Remuneration & Nomination Committee based on predetermined targets.

In respect of the year to 30 June 2012 the targets were:

- the three-year CAGR of the Group's headline earnings per share. The maximum target was the South African Consumer Price Index +8% and the minimum threshold for achievement of the incentive was Consumer Price Index +1%. The weighting of this portion of the incentive was 70% of the total incentive; and
- a weighting of 30% on their key performance indicators.

In respect of the year to 30 June 2013 the targets are:

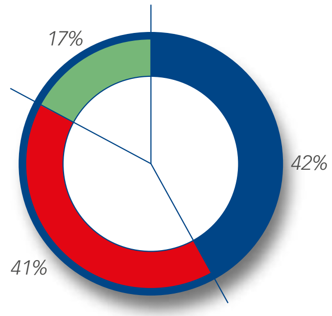
- the three-year CAGR of the Group's fully diluted headline earnings per share from continuing operations. The maximum target is the three-year compound annual South African Consumer Price Index +8% and the minimum threshold for the achievement of the incentive is the three-year annual compound Consumer Price Index +1%. The weighting of this portion of the incentive is 40% of the total incentive;
- the three-year CAGR of the Group's earnings before interest, tax, depreciation and amortisation per share. The maximum target is the three-year annual compound South African Consumer Price Index +8% and the minimum threshold for the achievement of the incentive is the three-year compounded Consumer Price Index +1%. The weighting of this portion of the incentive is 30% of the total incentive; and
- a weighting of 30% on their key performance indicators.

In addition to the annual incentive, executive directors are, subject to the approval of the Remuneration & Nomination Committee, awarded a medium-term incentive bonus under the terms and conditions of the South African Management Deferred Incentive Bonus Scheme referred to above, capped at a maximum of 41,25% of their total remuneration cost (excluding incentives). For purposes of the executive directors the extent of this award is determined with reference to the achievement of the Group's performance targets (with the budgeted operating profit for the Group for the relevant financial year being used as a performance measure) and the achievement of certain pre-determined key performance indicators in respect of each of the executive directors as agreed with them and approved by the Remuneration & Nomination Committee.

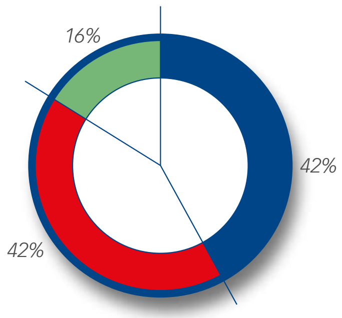
Neither of the executive directors has a long-term service contract with the Group and, in both instances, the service contracts of the executive directors are terminable on six months' written notice.

Stephen Saad

2012



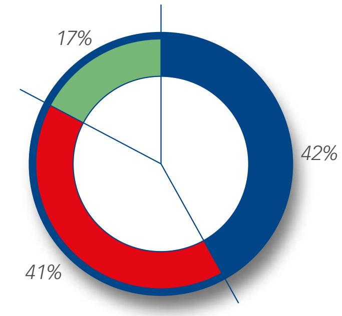
2011



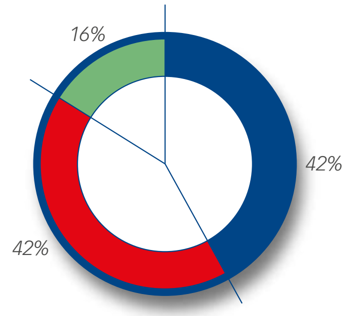
Salary
Incentive bonus
Deferred bonus

Gus Attridge

2012



2011



Salary
Incentive bonus
Deferred bonus

The executive directors have, to date, always elected to receive their deferred incentive awards in shares as opposed to cash.

Non-executive directors

Non-executive directors do not receive any bonuses, share options, incentives or other payments in addition to their directors' fees. Following research into trends in non-executive director remuneration among companies of a similar size and complexity to the Group and the duties performed, non-executive directors' fees are proposed by management to the Remuneration & Nomination Committee.

Remuneration report continued

After review of such proposals, the Remuneration & Nomination Committee makes appropriate recommendations, other than for fees for services rendered to the Remuneration & Nomination Committee, to the Board. The proposal endorsed by the Board is tabled for approval by shareholders at the annual general meeting. In line with the requirements of the Companies Act, the fees payable to the non-executive directors for the 2012 financial year were approved by a special resolution of Aspen's shareholders at the Company's annual general meeting held in December 2011. The fees payable to these directors through to the annual general meeting in 2013 will be submitted for approval at the Company's annual general meeting to be held on 4 December 2012. An additional fee increment has been proposed for the members of the Audit & Risk Committee in light of the additional risk responsibilities they have assumed as a result of the dissolution of the Risk & Sustainability Committee.

The Chairman of the Board receives a flat annual fee for her role as Chairman. Non-executive directors' fees are fixed for the year. A base fee is payable to each non-executive director annually, in addition to a fee per meeting attended. Further fees will be paid for attendance at unscheduled meetings dependent on the number of hours spent at the meeting, up to a maximum of the set fee per meeting. In the instance of non-attendance, non-executive directors are obliged to continue to participate in meetings by providing the Chairman or the committee Chairman with detailed inputs for all agenda items. The Remuneration & Nomination Committee has discretion to approve payment of such fees to a non-executive director notwithstanding his/her absence from a meeting in special circumstances.

Consistency of application and approval

The remuneration philosophy is consistently applied across all companies forming part of the Group. In line with the recommendation of King III, the Group will table this Remuneration Policy at its 2012 annual general meeting for a non-binding advisory vote by shareholders.

Directors' remuneration and shareholding

The tables below set out the remuneration paid to the directors as well as the details of directors' shareholdings in the Group:

Non-executive directors	**2012 R'000**	2011 R'000
Archie Aaron*	**–**	73
Roy Andersen	**437**	345
Rafique Bagus	**356**	361
John Buchanan	**578**	509
Judy Dlamini	**770**	716
Kuseni Dlamini†	**70**	–
Abbas Hussain	**216**	165
Chris Mortimer	**216**	185
David Nurek#	**85**	255
Sindi Zilwa	**406**	319
	3 134	2 928

† Kuseni Dlamini was appointed with effect from 1 April 2012. The payment reflected above includes payments made from this date.

 # David Nurek retired as a non-executive director of the Group on 1 December 2011. The payment reflected above includes payments made until this date.

** Archie Aaron retired on 26 November 2010. The payment reflected above includes payments made until this date.*

Executive directors 2012	Remuneration R'000	Retirement and medical aid benefits R'000	Performance bonus R'000	Share-based payment expenses R'000	Total R'000
Gus Attridge	**4 340**	**517**	**4 852**	**2 434**	**12 143**
Stephen Saad	**5 234**	**616**	**5 869**	**3 260**	**14 979**
	9 574	**1 133**	**10 721**	**5 694**	**27 122**
2011					
Gus Attridge	3 870	491	4 321	2 139	10 821
Stephen Saad	4 687	584	5 254	2 623	13 148
	8 557	1 075	9 575	4 762	23 969

Refer to note 26 of the Group Annual Financial Statements for prior year emoluments paid to directors.

Directors' interests in Aspen shares

Shares under option offered to and accepted by executive directors in terms of the Aspen Share Incentive Scheme are as follows:

	Grant price (R)	Expiry date	Options outstanding on 30 June 2011 ('000)	Options exercised ('000)	**Options outstanding on 30 June 2012 ('000)**
Gus Attridge	9,20	Aug 2011	400	400	**–**
Stephen Saad	9,20	Aug 2011	800	800	**–**
			1 200	1 200	**–**

No share options lapsed or were cancelled during the year. The last tranche issued in terms of this scheme was awarded in September 2007.

Remuneration report continued

The table below reflects the status of rights issued to executive directors in terms of the Aspen Share Appreciation Scheme in the past and rights exercised during the year:

	Grant price (R)	Expiry date	Rights outstanding on 30 June 2011 ('000)	Exercised ('000)	**Rights outstanding on 30 June 2012 ('000)**	**Vested ('000)**	**Non-vested ('000)**
Gus Attridge	32,82	Sept 2011	159	159	**–**	**–**	**–**
	35,53	Sept 2012	157	–	**157**	**157**	**–**
	41,03	Sept 2013	150	–	**150**	**150**	**–**
			466	159	**307**	**307**	**–**
Stephen Saad	32,82	Sept 2011	193	193	**–**	**–**	**–**
	35,53	Sept 2012	190	190	**–**	**–**	**–**
	41,03	Sept 2013	181	–	**181**	**181**	**–**
			564	383	**181**	**181**	**–**
			1 030	542	**488**	**488**	**–**

No share appreciation rights lapsed or were cancelled during the year.

Shares offered to and accepted by executive directors in terms of the South African Management Deferred Incentive Bonus Scheme during the year were as follows:

	Price (R)	Maturity date	Shares outstanding on 30 June 2011 ('000)	Awarded during the year ('000)	**Shares outstanding on 30 June 2012 ('000)**
Gus Attridge	64,70	Oct 2012	24	–	**24**
	86,88	Nov 2013	19	–	**19**
	89,68	Oct 2014	–	20	**20**
			43	20	**63**
Stephen Saad	64,70	Oct 2012	29	–	**29**
	86,88	Nov 2013	24	–	**24**
	89,68	Oct 2014	–	25	**25**
			53	25	**78**
			96	45	**141**

The deferred incentive bonus shares have a maturity date of three years on acceptance of the bonus.

The direct and indirect beneficial interests of the directors and their associates in the shares of the Company were:

Director	Direct ('000) 2012	2011	Indirect ('000) 2012	2011
Roy Andersen	**40**	40	**–**	–
Gus Attridge	**3 654**	3 154	**15 169**	15 169
Rafique Bagus	**–**	–	**9**	–
John Buchanan	**–**	–	**30**	30
Judy Dlamini	**–**	–	**2 627**	1 316
Abbas Hussain	**–**	–	**–**	–
Chris Mortimer	**78**	78	**–**	–
David Nurek	**–**	–	**19**	19
Stephen Saad	**3 801**	2 747	**51 303**	51 303
Sindi Zilwa	**–**	–	**–**	–
	7 573	6 019	**69 157**	67 837

None of the directors held any non-beneficial shares in the Company at 30 June 2012.

A legal opinion obtained by the Company has confirmed that there are no individuals who can be considered as prescribed officers of the Company.

Roy Andersen
Remuneration & Nomination Committee Chairman

22 October 2012