2017
REMUNERATION REPORT

AFROX
A Member of The Linde Group

Remuneration report

Background statement

This remuneration chapter presents the key components of Afrox's remuneration philosophy. This philosophy is reviewed annually to clearly articulate our stance on remuneration and employee rewards. Building a competitive, high- performance culture with fair and equitable reward levels that attract, retain, motivate, engage and recognise high-performing employees is a key enabler of the HR strategy, which in turn supports our overall strategic objectives.

The NGMR Committee is responsible for independently overseeing and approving remuneration policies and practices for the Company in order to ensure these are fair, consistent, and reasonable.

The Group strives to remunerate employees competitively within the relevant occupational ranges benchmarked against the national and manufacturing industry standards by the size of the organisation. This aids us in establishing market-related midpoint. Through our annual HR budget reviews, we consider employee performance, compa ratio (the relationship between base salary and the midpoint) and business affordability. This informs the formulation of an appropriate remuneration figure.

Fair and responsible remuneration

Remuneration is structured in a manner that supports our strategy by, attracting, motivating and retaining high-performing employees, by being competitive in the market. We do so by encouraging and rewarding employees to achieve or exceed the objectives and targets of the business as contained in our strategy and aligning the economic interests of employees with those of other stakeholders.

The remuneration system for the executive and non-executive directors is determined based on the amount and structure of the remuneration payable, the size of the company, performance, as well as on customary remuneration practice among peers and the remuneration structure which applies elsewhere in the company. To gauge customary practice among peers, Afrox compares its remuneration system with that of the national and manufacturing sectors.

Overview of remuneration policy

Responsibility for governing emoluments and developing relevant policy

Final responsibility for the remuneration policy rests with the Board, which in turn appoints the Remuneration Committee to aid it in fulfilling its duties. The Remuneration Committee is primarily responsible for providing input into and approving the reward strategy where remuneration is concerned. The Linde Group also provides significant input into the establishment of Afrox's remuneration practices and a number of advisors are used to assist in tracking market trends where relevant. The remuneration policy is available at www.afrox.co.za.

Changes to our remuneration policy

As part of the annual review process, the Remuneration Committee assessed the overall effectiveness of the remuneration philosophy. This review included the evaluation of the equity-settled long-term incentive plan (LTIP), which is benchmarked and modified based on current factors affecting the business.

The NGMR reviewed the current LTIP and, based on the results of the review, concluded that the current delivery mechanism of the LTIP is outdated and the allocations were not market-related. A new allocation method based on Total guaranteed pay (TGP) was approved for future allocations.

The new allocation method, in conjunction with amended performance conditions, was approved by the Board in November 2017. The Share appreciation right scheme (SARs) allocations will be discontinued with effect from the 2018 allocation. The Forfeitable share plan (FSP) will consist of a bonus share allocation (based on the percentage achievement of the previous year's Short-term incentive plan [STIP]) and a performance share subject to the amended performance conditions.

Various changes to the remuneration policy have been made over the past years and each of these amendments was reviewed in terms of alignment with the overall remuneration philosophy and growth strategy.

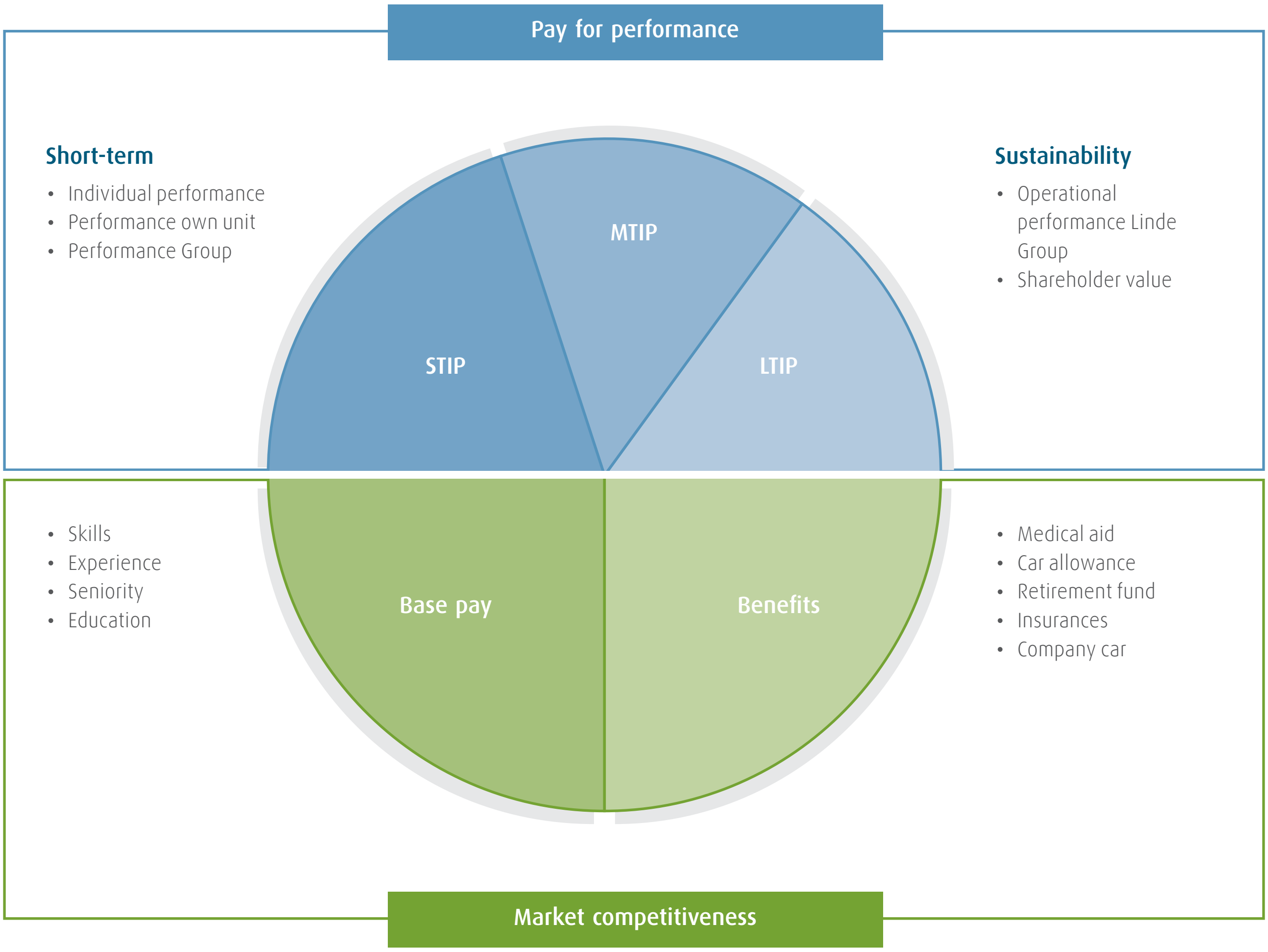
The key areas of focus derived from the NGMR Committee's activities were:

- Further disclosure on the incentive schemes.
- Review of best practice and the market alignment of the Afrox LTIP. This includes assessing the overall effectiveness of the LTIP as a retention mechanism.
- Benchmarking of fees to non-executive directors and, where required, alignment to market practice.

Each of these focus areas was reviewed in terms of its alignment with the remuneration philosophy and our growth strategy as a Company. As a result, the Committee recommended increases to the non-executive director fees and retainers to the Board. This included changes to the LTIP, which are described later on page 100. The Committee is of the opinion that compliance with the remuneration policy was achieved this year.

Service contracts

Executive director service contracts with the Company have a notice period of three months that provides for compensation and benefits (excluding share-linked benefits vesting in terms of the applicable rules of the scheme). An exception may occur under mutual separation arrangements. An employment contract with a notice period of three months is in place to retain the services of our Managing Director. The Financial Director's services are secured through an employment contract with The Linde Group.



Potential impact of total executive management remuneration

Element	Total
Total number of executive management members	12
Annual total base pay	R15 131 260
Annual TGP	R28 646 830
SIP and STIP 100%	R5 102 828
SIP and STIP 200%	R10 205 655
LTIP	R2 187 517
Minimum	R28 646 830
On target	R35 937 175
Maximum	R41 040 002

Afrox made no termination payments in respect of executive management during the year.

Remuneration report continued

How these elements are applied at various levels in the Company

	Non-executives	Executive management	Senior manager to middle management	Management/ professional	Junior management/ professional	Skilled and general workers
Base pay	Retainer and fee per meeting	Market-related base pay	Market-related base pay	Market-related base pay	Market-related base pay	Negotiated increases
Car allowance	Not applicable	30% of base salary	30% of base salary	30% of base salary	Not applicable	Not applicable
Guaranteed bonus		Not applicable	13th cheque where applicable	13th cheque where applicable		
Company car		Expatriates only			• Job-specific • Operational requirements • Operational requirements	• Job-specific • Operational requirements
Allowances		Not applicable			• Job-specific • Operational requirements • Operational requirements	• Job-specific • Operational requirements
Benefits		• Retirement funds (defined provident fund contribution and closed defined benefit pension fund) • Death and disability • Medical aid • Limited secured loan for buying or renovating a house • Mobile phone (job-specific, operational requirements)				• Retirement fund • Death and disability • Medical aid • Limited secured loan for buying or renovating a house • Mobile phone (job-specific, operational requirements)
		Not applicable	Not applicable	Not applicable	Not applicable	First-time homeowner's subsidy
Variable Bonus		Global short-term incentive plan (STIP) Medium-term incentive plan (MTIP)	Regional STIP/ Sales incentive Plan (SIP)	Regional STIP/SIP	SIP	
Shareholder value/ Sustain-ability	Long-term incentive plan (LTIP)	LTIP	LTIP	Not applicable	Not applicable	Not applicable

Remuneration report continued

These are the salient features of each of the remuneration components:

Remuneration component	Policy principles	Eligibility and application
TGP	Comprises: • Base salary • Guaranteed payments, i.e. 13th cheque, car allowance • Employer contributions to retirement fund.	• All permanent employees receive a base salary, employer contributions to retirement fund and medical aid. • Base salary is determined in line with market levels. • Employees who are not on a variable incentive programme receive a 13th cheque, equivalent to one month's base salary paid once in any leave cycle. • Management levels are permitted to structure a car allowance as part of their overall annual package.
Benefits	• In addition to the benefits listed as part of TGP, the Company makes provision for a company car, mobile phone, bond subsidy and death and disability cover as part of the retirement fund benefits.	• A Company car is provided to technical employees who require one to perform their duties. • Death and disability cover is provided to all permanent employees. • A mobile phone, deemed a business tool, is provided to an eligible employee as part of a job's functional requirement. • A bond subsidy is paid monthly to eligible employees to assist in the repayments of their home loan (closed scheme).
STIP	• Global STIP is the annual short-term incentive scheme for all executives. • Regional STIP is the annual short-term incentive scheme for regional employees as defined by the Regional Business Unit (RBU). • The variable cash emoluments for the STIP are based on an average of an 80% financial and 20% individual target. These are typically between 15% and 40% of fixed cash. • Financial targets are set at Group and own unit level, RBU. • There are generally three tiers measured by Group, RBU and individual targets. • Annual payments are made in April following Board approval. • The Board conducts regular reviews of the targets set and the calibration of the variable remuneration, including the performance hurdles, in order to prevent potential distortions.	• STIP targets for 2017 include; Group • Operating profit Linde Group • Operating segment EMEA • Operating profit own RBU • ROCE, and group operating profit Regional business unit (RBU) • Regional operating profit, • Levels of fixed costs • Net trade working capital • SHEQ (recordable incidents, compliance and driver risk profiling). • Individual targets consisting of financial targets or measures aligned to the position.
SIP	• The incentive is paid biannually on achievement of the sales objectives at all levels. • Based on both Company financial and non-financial KPIs and individual performance. These are typically up to 20% of base salary. • The split between Company and individual performance is typically 80% and 20%.	• SIP targets for 2017 included gross margin, stock cover days, debt recovery, pricing. • SHEQ based on the measures for total recordable incidents, compliance and driver risk profiling.
MTIP	• The plan rewards performance over a four-year period combined with annual payments recognising the contribution in each year as well as a cumulative bonus bank performance period of four years. • Paid in cash in May each year based on previous year's performance. • The performance measurements here are related to KPIs in the respective functional areas of the Company. These are the KPIs that are meaningful and can be actively managed.	
LTIP	• The LTIP comprises a SARs scheme and Forfeitable Share Plan (FSP), both of which are equity-settled long-term incentive schemes.	

STIP targets

The following table outlines the approved targets and weightings for the 2017 STIP plan measured over 12 months.

Tier	Targets	Weight %
Tier 1	The Linde Group	20
	ROCE – Group	10
	Operating Profit – Group	10
Tier 2	RBU[1]	60
	Operating Profit – OPS (EMEA)	12
	Net Sales – RBU (RAF[2])	12
	Fixed Costs – RBU (RAF)	12
	Operating Profit – RBU (RAF)	12
	TWC/Net Sales – RBU (RAF)	12
Tier 3	Individual Performance	20
	SWIFT	10
	SHEQ	10

LTIP

Both executive directors and senior management participate in the Company's share-based long-term incentive scheme. Allocations are approved by the Board on recommendation of the NGMR Committee. The Committee believes that the incentive scheme is directly linked to the achievement of sustained profitability as well as the Company's market-related performance based on the performance of our share price. The Committee is of the opinion that the equity-settled schemes is an effective mechanism to attract and retain competent employees The total interest of executive directors who held office on 31 December 2017 is 80 000 SARs. This is granted at an average price of R15.16 per share.

Forfeitable Share Plan

Executive directors who held office on 31 December 2017 had an indirect interest in 250 000 forfeitable shares. The vesting of certain shares is conditional only upon the employee being employed by the Company at the vesting date and, for other shares granted, both on continued employment and on reaching predetermined performance conditions. All dividends paid accrue to the employee during the vesting period.

Long-term Incentive Award	SAR	FSP With performance conditions	FSP Without performance conditions
2015 Allocation	32 000	61 000	117 000
2016 Allocation	24 000	27 000	9 000
2017 Allocation	24 000	27 000	9 000

Review of the LTIP

The Remuneration Committee reviews the LTIP regularly, considering relevant changes in tax legislation while ensuring alignment with the long-term objectives. Following the review of the LTIP in 2017, the following changes were recommended by the Committee and approved by the Board for implementation from 2018.

- The scheme will continue to be a 100% equity-settled scheme and a share will be purchased on the open market.
- The allocation of the FSP will be subject to performance conditions (performance shares) with the introduction of a bonus share which will replace the FSP with no performance conditions.
- The bonus share allocation will be based on the previous year's STIP achievement percentage.
- The vesting period will continue being three years from date of issue and the performance conditions measured once. Non-vested instruments will be forfeited if vesting conditions are not met.

Performance conditions have been imposed in respect of an FSP and the terms of that performance. The table below summarises these:

Condition	Below Threshold Level 0% Vesting	Threshold Level 50% Vesting	Target Level 75% Vesting	Stretch Level 100% Vesting	Weighting
HEPS	HEPS below GDP +1% Real CAGR over vesting period	HEPS = GDP+ 2% Real CAGR over vesting period	HEPS = GDP +3% Real CAGR over vesting period	HEPS = GDP+ 4% Real CAGR over vesting period	50%
ROCE[3]	ROCE below 23.75%	ROCE at 24.0%	ROCE at 24.25%	ROCE at 24.5.0%	25%
RELATIVE TSR	Below 55th percentile	55th percentile	Straight line allocation	80th percentile	25%

[1] *Regional Business Units*
[2] *Region Africa*
[3] *Percentage will be reviewed during the next two measurement periods*