

CAP-XX LIMITED

Remuneration Committee Terms of Reference

1. Membership

- 1.1. Members of the Committee shall be appointed by the Board. The Committee shall be made up of at least 2 members, all of whom are non-executive directors.
- 1.2. Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chief Executive may be invited to attend for all or part of any meeting as and when appropriate.
- 1.3. Appointments to the Committee shall be for a period of up to three years, which may be extended for two further three-year periods.
- 1.4. The Board shall appoint the Committee Chairman.

2. Secretary

- 2.1. The Company Secretary or his nominee shall act as the Secretary of the Committee.

3. Quorum

- 3.1. The quorum necessary for the transaction of business shall be 2. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

4. Meetings

- 4.1. The Committee shall meet at least twice a year and at such other times as the Chairman of the Committee shall require.

5. Notice of Meetings

- 5.1. Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of any of its members.
- 5.2. Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other person required to attend and all other non-executive directors, no later than 5 working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

6. Minutes of Meetings

- 6.1. The Secretary shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.

- 6.2. Minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to all members of the Board, unless a conflict of interest exists.

7. Annual General Meeting

- 7.1. The Chairman of the Committee shall attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities.

8. Duties

The Committee shall:

- 8.1. determine and agree with the Board the framework or broad policy for the remuneration of the company's Chief Executive, Chairman, the executive directors, the company secretary and such other members of the executive management as it is designated to consider. The remuneration of non-executive directors shall be a matter for the Chairman and the executive members of the Board. No director or manager shall be involved in any decisions as to their own remuneration;
- 8.2. in determining such policy, take into account all factors which it deems necessary. The objective of such policy shall be to ensure that members of the executive management of the company are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company;
- 8.3. review the ongoing appropriateness and relevance of the remuneration policy;
- 8.4. approve the design of, and determine targets for, any performance related pay schemes operated by the Company and approve the total annual payments made under such schemes;
- 8.5. review the design of all share incentive plans for approval by the Board and shareholders. For any such plans, determine each year whether awards will be made, and if so, the overall amount of such awards, the individual awards to executive directors and other senior executives and the performance targets to be used;
- 8.6. determine the policy for, and scope of, pension arrangements for each executive director and other senior executives;
- 8.7. ensure that contractual terms on termination, and any payments made, are fair to the individual, and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised;
- 8.8. within the terms of the agreed policy and in consultation with the Chairman and/or Chief Executive as appropriate, determine the total individual remuneration package of each executive director and other senior executives including bonuses, incentive payments and share options or other share awards;

- 8.9. in determining such packages and arrangements, give due regard to any relevant legal requirements, the provisions and recommendations in the Combined Code and associated guidance;
- 8.10. review and note annually the remuneration trends across the Company or Group;
- 8.11. oversee any major changes in employee benefits structures throughout the Company or Group;
- 8.12. agree the policy for authorising claims for expenses from the Chief Executive and Chairman;
- 8.13. ensure that all provisions regarding disclosure of remuneration including pensions, are fulfilled; and
- 8.14. be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Committee and to obtain reliable, up-to-date information about remuneration in other companies. The Committee shall have full authority to commission any reports or surveys which it deems necessary to help it fulfil its obligations.

9. Reporting Responsibilities

- 9.1. The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 9.2. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 9.3. The Committee shall produce an annual report of the Company's remuneration policy and practices which may form part of the company's Annual Report and may be put to shareholders for approval at the AGM.

10. Other

- 10.1. The Committee shall, at least once a year, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

11. Authority

- 11.1. The Committee is authorised by the Board to seek any information it requires from any employee of the Company in order to perform its duties.
- 11.2. In connection with its duties the Committee is authorised by the Board to obtain, at the Company's expense, any outside legal or other professional advice.

Appendix to Terms of Reference of the Remuneration Committee

(not forming part of the Terms of Reference)

The Combined Code on Corporate Governance (“the Combined Code”) states that:

“There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors”.¹

It goes on to state that:

“The Board should establish a remuneration committee [which] should make available its terms of reference, explaining its role and the authority delegated to it by the Board.”²

As with most aspects of corporate governance, the above principles make it clear that, not only should companies go through a formal process of considering executive remuneration, but they must be seen to be doing so in a fair and thorough manner. It is, therefore, essential that the Remuneration Committee is properly constituted with a clear remit and identified authority.

The Combined Code recommends the Committee be made up of at least three independent non-executive directors (although two is permissible for smaller companies).³

Although not a provision in the Combined Code, the Higgs Review states as good practice, in its Non-Code Recommendations, that the Company Secretary (or his/her designee) should act as Secretary to the Committee⁴. It is the Company Secretary’s responsibility to ensure that the Board and its Committees are properly constituted and advised. There also needs to be a clear co-ordination between the main Board and the various Committees where the Company Secretary would normally act as a valued intermediary.

The frequency with which the Committee needs to meet will vary from company to company and may change from time to time. It is, however, clear that it must meet close to the year end to review (where appropriate) the Remuneration Report which is to be prepared under the Directors’ Remuneration Report Regulations 2002 and be submitted to shareholders with or as part of the company’s Annual Report for their approval at the AGM.

The list of duties proposed are those contained within the Summary of Principle Duties Of the Remuneration Committee which were compiled for the Higgs Review and which are now appended to the Combined Code. You may wish to add and/or modify this list. The Combined Code also states that the Chairman of the Committee should attend the AGM prepared to respond to any questions that may be raised by shareholders on matters within the Committee’s area of responsibility.⁵

¹ *The Combined Code on Corporate Governance – July 2003, B.2*

² *The Combined Code on Corporate Governance – July 2003, B.2.1*

³ A smaller company is defined as one which is below the FTSE 350 throughout the year immediately before the reporting year.

⁴ *Review of the role and effectiveness of non-executive directors*, January 2003 para 11.30

⁵ *The Combined Code on Corporate Governance – July 2003 D.2.3*

The Combined Code also requires that the terms of reference of the Remuneration Committee, explaining its role and the authority delegated to it by the Board, be made available on request and placed on the company's website.⁶

⁶ *The Combined Code on Corporate Governance – July 2003 A.4.1*