



Terms of Reference

REMUNERATION COMMITTEE

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1 TERMS OF REFERENCE OF THE REMUNERATION COMMITTEE

1.1 Membership

- 1.1.1 The Committee shall be appointed by the Board from amongst the directors of the Company who shall, so far as is practicable, be independent, and shall consist of not less than two members. The members should be, so far as practicable, independent of management and free of any business or other relationship (including, without limitation, cross-directorships or day-to-day involvement in the running of the business) which could interfere with the exercise of their independent judgement. A quorum shall be two members (or as governed by the Company's articles of Association from time to time).
- 1.1.2 The Chairman of the Committee shall be appointed by the Board (but shall not be the Chairman of the Board). In the case of an equality of votes, the Chairman shall have a casting vote.
- 1.1.3 The members of the Committee shall be re-elected each year by the Board and a member of the Committee can be removed by the Board at any time subject to the requirement that the number of members does not fall below two at any time.
- 1.1.4 Each member of the Committee shall devote extra time to his work as a member in addition to carrying out his duties as a director of the Company and a member of any other committees of the Board.
- 1.1.5 The Board shall appoint the Committee Chairman. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

1.2 Quorum

- 1.2.1 The quorum necessary for the transaction of business shall be 2 members. 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.
- 1.2.2 Attendance at meetings
- 1.2.3 The Company Secretary, or his nominee, shall act as the secretary of the Committee.
- 1.2.4 Other Board members shall also have the right to attend meetings but no Director may be present when his or her own remuneration is being discussed.
- 1.2.5 The Chief Executive for the time being in office shall be invited to attend meetings to discuss the performance of executive directors and make proposals as necessary.
- 1.2.6 The Chief Executive for the time being in office will also report to the Committee on significant changes in salary structure and terms and conditions affecting other officers at senior executive level.

1.3 Frequency of meetings

- 1.3.1 Meetings shall be held not less than twice a year and at such other time as the Chairman of the Committee may require.
- 1.3.2 A meeting may also be requested at any time by the Chairman of the Board, by any member of the Committee who considers that one is necessary and by any member of the Board if approval is given by the Chairman of the Board.

1.4 Notice of Meetings

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.

1.5 Authority

- 1.5.1 The Committee is authorised by the Board to determine on its behalf, and on behalf of the shareholders of the Company, the Company's policy on the remuneration and terms and conditions of service of the executive directors and employees, for formulating the remuneration policy of the Company (and its subsidiaries, if any), including pension rights and any compensation rights, for making awards under the Company's discretionary bonus schemes and for granting share options under the Company's share option schemes.
- 1.5.2 The Committee is authorised by the Board, at the expense of the Company, to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary and to arrange for the auditing of any information provided to the shareholders.
- 1.5.3 The Committee is authorised by the Board to investigate any activity within its terms of reference. It is also authorised to seek any information it requires from any employee and all employees are directed to co-operate with any requests made by the Committee.
- 1.5.4 The Committee shall be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Committee.

1.6 Duties

The duties of the Committee shall be (having due regard to the views of the Company's Nominated Adviser, market comparisons, published guidelines and recommendations regarding the remuneration of directors of a company whose shares are admitted to trading on a relevant stock exchange) to:

- 1.6.1 within the terms of the agreed policy, determine the total individual remuneration package of each executive director including, where appropriate, bonuses, incentive payments and share options;

- 1.6.2 ensure remuneration packages offered are competitive and are sufficient to attract, retain and motivate directors and employees of the quality required but to avoid paying more than is necessary for this purpose;
- 1.6.3 be aware what comparable companies are paying and to take account of relative performance;
- 1.6.4 be sensitive to the wider scene, including pay and employment conditions elsewhere in the group, especially when determining annual salary increases;
- 1.6.5 be aware of and advise on any major changes in employee benefit structures throughout the Company and its group;
- 1.6.6 determine targets for any performance-related pay schemes operated by the Company, ensure that performance-related elements of remuneration are designed to align the interests of directors, employees and shareholders and to give directors and employees keen incentives to perform at the highest levels;
- 1.6.7 ensure that the remuneration of executive directors and other senior executives of the Company (and its subsidiaries, if any) directly reflect their responsibilities and contain adequate incentives to deliver the Company's performance objectives;
- 1.6.8 consider whether the directors should be eligible for annual bonuses. If so, performance conditions should be relevant, challenging and designed to enhance the business. Upper limits should always be considered. There may be a case for part-payment in shares to be held for a significant period;
- 1.6.9 consider whether the directors should be eligible for benefits under long-term incentive schemes. Traditional share option schemes should be weighed against other kinds of long-term incentive scheme. In normal circumstances, shares granted or other forms of deferred remuneration should not vest, and options should not be exercisable, in under three years. Directors should be encouraged to hold their shares for a further period after vesting or exercise subject to the need to finance any costs of acquisition and associated tax liability;
- 1.6.10 consider any new long-term incentive schemes which are proposed and refer them to shareholders of the Company. These should preferably replace existing schemes or at least form part of a well-considered overall plan, incorporating existing schemes. The total rewards potentially available should not be excessive;
- 1.6.11 ensure payouts or grants under all incentive schemes, including new grants under existing share option schemes, are subject to challenging performance criteria reflecting the Company's performance relative to a group of comparator companies in some key variables such as total shareholder return;
- 1.6.12 ensure grants under executive share option and other long-term incentive schemes are phased rather than awarded in one large block;
- 1.6.13 consider the pension consequences and associated costs to the Company of basic salary increases and other changes in remuneration, especially for directors close to retirement;

- 1.6.14 in general ensure, that neither annual bonuses nor benefits in kind are pensionable;
- 1.6.15 consider what compensation commitments (including pension contributions) the directors' contracts of service, if any, would entail in the event of early termination, particularly for unsatisfactory performance;
- 1.6.16 consider setting notice or contract periods at, or reducing them to, one year or less but being sensitive and flexible, especially over timing. In some cases notice of contract periods of up to one year may be acceptable. Longer periods should be avoided wherever possible;
- 1.6.17 within the legal constraints tailor their approach in individual early termination cases to the wide variety of circumstances. The broad aim should be to avoid rewarding poor performance while dealing fairly with cases where departure is not due to poor performance and to take a robust line on reducing compensation to reflect departing directors' obligations to mitigate damages;
- 1.6.18 where appropriate, and in particular where notice or contract periods exceed one year, to consider paying all or part of compensation in instalments rather than one lump sum and reducing or stopping payment when the former director takes on new employment;
- 1.6.19 follow best practice in relation to the Principles of Good Governance and Code of Best Practice as set out in the UK Corporate Governance Code as published by the Financial Reporting Council and pay due regard to other best corporate governance practice from time to time, so far as it is appropriate having regard to the size and nature of the Company (together with its subsidiaries, if any);
- 1.6.20 determine the terms of any compensation package in the event of early termination of contracts of any executive director;
- 1.6.21 perform the same functions in respect of other senior executives, where appropriate or requested to do so by the Board;
- 1.6.22 examine each proposal which the Board may make for the appointment of an executive director of the Company and report to the Board on such proposal, on the basis that no such appointment should be made unless the Committee has first so reported;
- 1.6.23 agree the policy for authorising claims for expenses from the chief executive and Chairman;
- 1.6.24 make recommendations to the Board regarding the content of the Board's annual report to the Company's shareholders, setting out the Company's policy on executive directors'
- 1.6.25 remuneration, details of individual remuneration and other terms and conditions and ensure that provisions regarding disclosure of remuneration including pensions, as set out in the Directors' Remuneration Report Regulations 2002, are fulfilled;
- 1.6.26 make recommendations to the Board on an annual basis as to whether the circumstances are such that shareholders should be invited to approve the policy set out in the board's remuneration report at the Company's AGM; and

- 1.6.27 consider any other matters regarding the remuneration of or terms of employment applicable to the executive directors (and such senior executives) of the Company as are referred to it by the Board or the Chairman of the Board (including the nature and extent of disclosure of remuneration in addition to that required by law and the AIM Rules for Companies) and to have regard in the performance of duties set out in this paragraph to any published guidelines or recommendations regarding the operation of share option schemes (and in particular any guidelines published by the Investment Committees of the ABI and NAPF).

1.7 Reporting procedures

- 1.7.1 The Secretary shall circulate the minutes of meetings of the Committee to all members of the Board after each meeting of the Committee.
- 1.7.2 The Committee shall make whatever recommendations to the Board it deems appropriate in any area within its remit where action or improvement is needed.
- 1.7.3 The Chairman of the Committee shall be available to answer questions about the Committee's work at the annual general meeting of the Company.

1.8 Exclusions

These terms of reference of the Committee do not encompass decisions to employ or dismiss director(s) of the Company. The Committee shall not have responsibilities for nominations to the Board. The Board as a whole shall determine the remuneration of the non-executive directors of the Company.

1.9 Procedures

- 1.9.1 Subject as provided in these terms of reference and the Articles of Association of the Company, the Committee shall determine its own procedures.
- 1.9.2 The Committee shall, at least once a year, review its own terms of reference to ensure that it is operating with maximum efficiency and shall recommend to the Board for approval any changes it considers necessary.