

## **SENIOR OFFICERS' REMUNERATION AND SELECTION COMMITTEE**

### **Terms of reference**

- to determine on behalf of the Board and the shareholders the company's broad policy for executive remuneration and the entire individual remuneration packages for each of the Executive Directors and Senior Officers;
- to give the Executive Directors and Senior Officers every encouragement to enhance the company's performance and to ensure that they are fairly, but responsibly, rewarded for their individual contributions;
- to comply with the Code of best practice;
- the Committee should have access to reliable, up-to-date information about remuneration in other companies and should judge the implications carefully.
- If necessary, the Committee may need to draw on outside advice. This should combine quality and judgement with independence.
- to report and account directly to the Board of Directors, for their decisions.

### **GENERAL REMUNERATION POLICY**

The Company's general remuneration Policy should include the following major issues:

- the total level of remuneration;
- the main components and the arrangements for determining them, including the division between basic and performance-related components;
- the main parameters and rationale for any annual bonus schemes, including caps;
- the main parameters and rationale for any share option or other long-term incentive schemes;

- how performance is measured, how rewards are related to it, how the performance measures relate to longer-term company objectives and how the company has performed over time;
- the company's policy on allowing Executive Directors and Senior Officers to accept appointments and retain payments from sources outside the company;
- the company's policy on contracts of service and early termination;
- the pension and retirement benefit schemes for Directors, including the type of scheme, the main terms and parameters, what elements of remuneration are pensionable;

The Remuneration packages of Executive Directors and Senior Remuneration should include some or all of the following elements:

- Basic salary;
- Benefit in kind;
- Annual bonuses;
- Share options;
- Pension rights;

The Remuneration Committee should consider how remuneration should be defined between the "fixed" elements of basic salary, benefits in kind and pension rights, which Executive Directors and Senior Officers will receive regardless of the company's performance and "variable" or "performance-related" elements such as annual bonuses, share options and other incentive schemes, whose value will vary with the performance of the company.

A key concern should be to ensure, through the remuneration system, that Executive Directors and Senior Officers share the interest of shareholders in making the company successful.

### **Basic Salary**

In setting a basic salary level for each Executive Director's job consideration should be given to the following:

- the range of rates for similar jobs, based on comparative company information;
- individual performance, which is likely to reflect skills, experience and judgement as well as commitment;
- internal company relativities; and
- risks, job-security and particular circumstances in relation to the individual.

## **Benefits in kind**

The Remuneration Committee should not only be aware of how much these are worth but should also keep them under review.

## **Annual Bonuses**

The Remuneration Committee needs to consider whether Executive Directors and Senior Officers should be eligible for annual bonuses.

The annual bonus should be related to the performance of the company not only for short term but also keeping in sight the long-term perspective. The size of the annual bonus should reflect company performance against targets for some financial yardsticks such as profits, cash flow, or earnings per share, or operational yardsticks such as quality or customer service. These targets should always be relevant and designed to enhance the business. They should relate to what individuals can influence and what is important for the company.

Bonuses should not be allowed to become, in effect, another guaranteed element of remuneration. They should normally be subject to an upper limit or cap, such as a specified percentage of basic pay.

## **Pension entitlements**

For Executive Directors and Senior Officers, pension entitlements are a key element in total remuneration, with important longer-term implications for the individual and the company. Remuneration committee, therefore, need to consider carefully pension provision and to take professional advice on how best to deal with the many strategic and technical issues, including types of scheme and the Income Tax cap. The Remuneration Committee needs to consider what elements in remuneration should be pensionable. Basic salary should be pensionable. Annual bonuses are a management instrument designed to promote and reward performance. In general neither these nor payments under long-term incentive schemes nor benefits in kind should be pensionable.

Where pension entitlements are based, as most company schemes are, on final salary, or average salary over a best period of years, on final salary, or average salary over a best period of years, large increases in basic salary towards the end of a career will be reflected in a correspondingly proportionate increase in pension entitlement which will not only represent a great benefit to the individual but will also be disproportionately costly for the pension fund and hence ultimately the company. This, too, is a matter which the remuneration committee needs to watch carefully.