

Zetex plc

**TERMS OF REFERENCE OF THE REMUNERATION COMMITTEE
OF THE BOARD APPOINTED UNDER ARTICLE 133**

1 Objective

The Committee shall be a committee of the Board whose principal responsibility shall be developing policy on executive remuneration and determining the remuneration packages of executive directors and senior group personnel.

2 Terms of Reference

- 2.1 *To recommend to the Board, the Company's framework for executive remuneration; the object of the framework shall be to ensure that members of the executive management of the Company are provided with appropriate incentives to encourage enhanced performance and rewarded for their individual contributions to the success of the Company in a fair and reasonable manner.*
- 2.2 *Within the terms of the agreed framework, to determine on behalf of the Board the individual remuneration packages of the Group's executive directors and the company secretary, including where appropriate pension rights, bonuses, incentive payments and any termination payments.*
- 2.2 *Within the terms of the agreed framework, to determine on behalf of the Board the overall remuneration packages of the Group's senior management team below the level of the Board including where appropriate pension rights, bonuses, incentive payments and any termination payments.*
- 2.3 *Within the terms of the agreed framework, to review and authorise on behalf of the Company service contracts with executive directors, the company secretary and the senior management team.*
- 2.4 *Within the terms of the agreed framework, to review the Company's employee share schemes and other long term incentive schemes for executive directors, officers and senior employees and to make appropriate recommendations to the Board on the above and to determine the options or awards under such schemes, together with the performance conditions (if any) to be attached thereto.*
- 2.5 *To approve the remuneration report set out in the annual report to shareholders.*
- 2.6 *To give full consideration to the provisions of the UK Listing Authority listing rules on directors' remuneration, including Combined Code provisions.*
- 2.7 *To consider, and if thought fit approve, on behalf of the Board any recommendation of the Trustees of the Zetex Group Pension Scheme ("the Scheme") to the Principal Employer regarding the remuneration of Trustees payable out of the Fund as permitted by the Trust Deed and Rules of the Scheme, current from time to time.*
- 2.8 *The Committee shall be responsible for the appointment (without reference to the Board) of any consultants at the Company's expense which it may determine appropriate in assisting and advising it in matters of executive remuneration. The Committee shall have full authority to commission any reports or surveys which it deems necessary to help it fulfil its obligations*
- 2.9 *To undertake such other tasks as may be referred to the Committee by the Board*

- 3.0 *To agree the policy for authorising claims for expenses from the Group Chief Executive [and the Chairman of the Board]*

3 Constitution

- 3.1 *Professor M J Norton (Chairman) - non-executive director
E P Airey - non-executive director
B Waite - non-executive director
M Geh - non-executive director*
- 3.2 *If the Chairman of the Committee is not present at a meeting the Members present shall elect one of their members as Chairman of the meeting.*
- 3.3 *The Company Secretary shall be secretary of the Committee.*
- 3.4 *The Committee shall have power to invite such other persons as it deems necessary or expedient to attend its meetings.*
- 3.5 *The power of appointing and removing members of the Committee shall be exercised by the Board.*

4 Transaction of Business

- 4.1 *The quorum necessary for the transaction of the business of the committee shall be two and the Chairman shall not have a second or casting vote.*
- 4.2 *In accordance with Article 162 of the Articles of Association of the Company, a Meeting of the Remuneration Committee may be validly held notwithstanding that such Committee Members may not be in the same place provided that they are in constant communication with each other throughout by telephone, video with voice link or other form of communication.*
- 4.3 *In accordance with Article 161 of the Articles of Association of the Company, a resolution in writing signed by all the members of the Committee for the time being shall be as valid and effectual as a resolution passed at a Meeting of the Committee duly called and constituted. Such resolution may be contained in one document or in several documents in the like form each signed by one or more of the Members of the Committee.*

No Committee attendee shall participate in any discussion or decision on their own remuneration.

5 Minutes

The Committee shall cause minutes to be kept of the names of the members of the Committee present and of the resolutions and proceedings at each of its meetings and shall make such minutes available to the Board.

6 Report

The Committee shall prepare a report of its activities for consideration by the Board at its regular meetings. Additionally, the Committee shall prepare a report for inclusion in the Company's Annual Report describing the work of the Committee as required under the Directors' Remuneration Reporting Regulations 2002.

7 Frequency

The Committee shall meet as frequently as it considers necessary to fulfil its terms of reference but at least twice in every year..

8 **Evaluation**

The Committee shall review its performance and terms of reference annually, to ensure its effectiveness, and recommend to the Board any changes it considers appropriate to its terms of reference.

REMUNERATION STATEMENT

1. *The Board of Zetex seeks to provide the remuneration packages necessary to attract, retain and motivate executive directors of the quality required to manage the business of the Group and seeks to avoid paying more than is necessary for this.*
2. *To avoid potential conflicts of interest, the Board has established a Remuneration Committee comprised exclusively of non-executive directors, with a majority of independent non-executive directors, whose remit is to:*
 - a) *make recommendations to the Board within agreed terms of reference on the Company's framework of executive remuneration and its cost;*
 - b) *to determine on their behalf specific remuneration packages for each of the executive directors, including pension rights and compensation payments;*
 - c) *when designing the remuneration framework and determining individual remuneration packages, ensure that the interests of executive directors and senior group executives are aligned as closely as possible with the interests of shareholders.*
3. *In establishing the level of remuneration for each director, the Committee has regard to the performance and responsibilities of the individual, salary levels elsewhere in the Group, and the remuneration packages offered by comparable companies. For guidance on the latter, when appropriate, the Committee uses surveys published by external remuneration consultants, which enable wide-ranging comparisons to be made.*
4. *The Committee has structured the remuneration packages of executive directors to include, in addition to basic salary, short and longer term incentives aimed at improving earnings per share and shareholder value respectively.*

4.1 Salaries

The Committee will review basic salaries for executive directors annually from 1st January. In addition, subject to their contracts of employment, executive directors will be provided with car benefits and a medical insurance plan, which the Committee notes are subject to income tax.

4.2 Annual Performance Related Bonus Scheme

- a) *The company will operate an annual performance related bonus scheme for executive directors and senior group executives.*
- b) *The amount of each individual bonus will be determined by reference to financial targets.*
- c) *All bonus programmes will be capped.*

4.3 Long Term Benefits

- a) *The Committee may award options to executive directors and senior company executives annually under the Zetex 2003 Executive Share Option Scheme ("The Scheme").*
- b) *Options may be granted to an employee each year having an aggregate exercise price not exceeding an amount equal to twice his or her total remuneration (including bonus) paid in the twelve months*

prior to grant.

- c) *All options held under the Scheme will be subject to performance conditions determined from time to time by the Committee.*
- d) *Grants under executive share option schemes and any other long-term incentive schemes in place from time to time will normally be phased rather than awarded in one large block.*
- e) *Grants will be made in accordance with a structured programme tailored to provide the appropriate incentivisation for each participant.*
- f) *Options awarded under the Scheme will not be granted at a discount to the prevailing market price (or other relevant price) at the time the exercise price is determined.*
- g) *The Committee will continue to assess the effectiveness of its existing incentive scheme in its overall remuneration plan and will consider as and when appropriate its replacement.*
- h) *The Committee notes that the Zetex 1984 Executive Share Option Scheme and the 1994 Zetex Executive Share Option Scheme has expired.*

5. Service Contracts

- a) *The service contracts of executive directors are currently terminable with six months notice.*
- b) *The Committee will keep under review emerging practice in UK listed companies with regard to notice periods.*

6. Pensions

- a) *The Company operates a defined benefit group pension scheme ("the Pension Scheme") whereby retirement benefits based on final remuneration and length of service are funded through a separate trustee administered scheme. The Company pays contributions to the Scheme on behalf of Pension Scheme members based on recommendations of the independent actuary who carries out a valuation of the Scheme every three years.*
- b) *C K Greene participates on the same basis as other scheme members. His contributions and benefits are subject to the Inland Revenue salary cap and his annual bonus from 8 March 2004 is not pensionable.*
- c) *Hans Rohrer and Nick Hawkins are not entitled to participate in the Pension Scheme as it is now closed to new members. He receives a salary supplement which is paid into his personal pension scheme. Their annual bonuses are not pensionable.*
- e) *Bonuses form a significant part of the well-formulated remuneration packages of group employees and as such, have traditionally been pensionable for all levels of staff, other than for Executive directors and the members of Zetex Group Stakeholder Plan.*

Benefits in kind do not form part of pensionable salary.

7. Non Group Directorships

- a) *The Committee reaffirms its policy on the holding of non-Group directorships*

determined at its meeting of 19th December 1994, namely only one external directorship permitted per executive; prior approval of the Board required; fees to be retained by the individual.

8. Non-Executive Directors

- a) *The Committee notes that the remuneration of non-executive directors is determined by the Board within the limits set out in the Articles of Association.*
- b) *The Committee further notes that non-executive directors will not have service contracts and are not eligible for bonuses or participation in share schemes and that no pension contributions will be made on their behalf.*

9. Directors' Remuneration – Best Practice

The Committee and Board confirms that in framing its remuneration policy it has given full consideration to the provisions of the UK Listing Authority Listing Rules on directors' remuneration, including the Combined Code provisions.