

# **WH SMITH PLC**

## **TERMS OF REFERENCE – REMUNERATION COMMITTEE**

### **1. COMPOSITION**

- 1.1 The Remuneration Committee shall be a Committee of the Board and its members appointed by the Board.
- 1.2 The Committee shall comprise not less than two independent non-executive directors. The Board shall appoint the Chairman of the Committee.
- 1.3 The Committee may invite the Chief Executive, Group Human Resources Director and external advisers to attend for all or part of any meeting, as and when appropriate.
- 1.4 The Committee shall have at its disposal the services of a specialist in the field of executive benefits and remuneration.
- 1.5 The Company Secretary or his nominee shall be the Secretary to the Committee.
- 1.6 Each member shall hold office as a committee member for a period of up to three years, which may be extended by additional three-year periods, so long as the member continues to be an independent non-executive director.
- 1.7 The Chairman and members shall be listed each year in the Company's Annual Report.

### **2. MEETINGS**

- 2.1 The quorum for any meeting shall be two of the Committee members present throughout the meeting or by telephone.
- 2.2 The Committee shall normally meet at least four times a year and additionally as and when required. The Chairman of the Committee may convene meetings at his discretion. A meeting of the Committee may be called by any member of the Committee or by the Secretary, but in any event, the Committee shall meet prior to the Company's salary review date.
- 2.3 Notice of each meeting confirming the venue, date and time together with an agenda of items to be discussed and supporting papers where appropriate shall be forwarded to each member of the Committee and to each other person invited to attend, not less than three working days prior to the date of the meeting. All reasonable efforts shall be made to give notice of meetings of the Committee to all members of it and to arrange such meetings so that members are able to attend them.
- 2.4 A member of the Committee may participate in a Committee meeting by telephone.
- 2.5 In the event of equality of votes, the Chairman of the Committee shall have a casting vote.
- 2.6 If any member of the Committee is unable to act for any reason, the Chairman of the Committee may appoint another non-executive director of the Company agreed by other members of the Committee to act as that member's alternate.
- 2.7 The members of the Committee shall serve on the Committee at the discretion of the Board and may be removed by the Board.

### 3. RESPONSIBILITIES

The responsibilities of the Committee are:

- (a) to 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 giving full consideration to the matters set out in Code provision B (headed "Remuneration") of, and Schedule A to, the Combined Code. 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;
- (b) in determining such policy, to take into account all factors which it deems necessary including the interests of shareholders. 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;
- (c) to review the ongoing appropriateness and relevance of the remuneration policy;
- (d) to 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;
- (e) to review the design of all existing and new cash bonus and share incentive plans for approval by the Board and shareholders:
  - (i) determine policy for the grant of awards/options to executive directors and senior executives of the Company, to ensure that they are provided with appropriate incentives consistent with the Company's policy as stated in the directors' remuneration report for the Company's last audited financial year;
  - (ii) set appropriate performance targets in connection with the awards and options;
  - (iii) approve all and any awards/options to executive directors and senior executives, including consideration of the quantum of grants and vesting schedules;
  - (iv) determine with the Committee's Independent Remuneration Consultants, whether such performance targets have been satisfied;
  - (v) any amendments to the awards and plans prior to obtaining any necessary shareholder approval; and
  - (vi) exercise any discretion specified in the rules of the plans and generally oversee the administration of the plans offered to executive directors and senior executives;
- (f) to determine the policy for, and scope of, pension arrangements for each executive director and other senior executives;
- (g) to 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;

- (h) within the terms of the agreed policy and in consultation with the Chairman and/or Chief Executive as appropriate, to determine the total individual remuneration package of each executive director and other senior executives including fees and expenses, bonuses, incentive payments and share options or other share awards;
- (i) in determining such packages and arrangements, to give due regard to any relevant legal requirements, the provisions and recommendations in the Combined Code and the UK Listing Authority's Listing Rules and associated guidance;
- (j) to review and note annually the remuneration trends across the Group;
- (k) to oversee any major change in employee benefits structures throughout the Group;
- (l) to agree the policy for authorising claims for expenses from the Chief Executive and Chairman;
- (m) to ensure that all provisions regarding disclosure of remuneration including pensions, as set out in the Directors' Remuneration Report Regulations 2002 and the Combined Code are fulfilled;
- (n) to liaise with the Nominations Committee to ensure that the remuneration packages of newly appointed executive directors are within the Company's overall policy;
- (o) to assist the board in preparing an Annual Report to shareholders for the purposes of and in accordance with the Companies Act 2006 and the Listing Rules of the Financial Services Authority and the provisions of the Combined Code. The report will form part of the Company's Annual Report and Accounts;
- (p) to appoint consultants in respect of executive director remuneration and make a statement in the Company's Annual Report and Accounts as to whether they have any other connection with the Company; and
- (q) to 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.

#### **4. ANNUAL GENERAL MEETING**

- 4.1 The Chairman of the Committee shall attend the Annual General Meeting and be prepared to respond to any shareholder questions on the Committee's activities.
- 4.2 All members of the Committee shall also attend the Annual General Meeting.

#### **5. REPORTING PROCEDURE**

- 5.1 The Chairman of the Committee shall make a verbal report to the next meeting of the Board of matters considered by the Committee.
- 5.2 The Secretary shall circulate to all members of the Board and invited attendees the minutes of the meetings of the Committee after the approval and signature by the Chairman.

- 5.3 The Committee shall produce an Annual Report of the Company's remuneration policy and practices which will form part of the Company's Annual Report and ensure each year that it is put to shareholders for approval at the AGM.

**6. TERMS OF REFERENCE - REVIEW**

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.

**7. AUTHORITY**

- 7.1 The Committee is authorised to investigate any activity within its terms of reference and seek any information it requires from any employee of the Company in order to perform its duties. All employees are directed to co-operate with any request made by the Committee.
- 7.2 The Committee is authorised to obtain, at the Company's expense, outside legal or other professional advice on any matters within its terms of reference including the advice of independent remuneration consultants, as well as information about remuneration practices elsewhere. The Committee may, if it thinks fit, secure the attendance at meetings of outsiders with relevant experience and expertise at the Company's expense.