

DATED

18 June

2015

KAINOS GROUP PLC

REMUNERATION
COMMITTEE:
TERMS OF REFERENCE

KAINOS GROUP PLC
("Company")

REMUNERATION COMMITTEE: TERMS OF REFERENCE

(This discussion draft terms of reference is based on the model terms of reference for a remuneration committee produced by ICSA.

Once constituted, the remuneration committee of Kainos Group plc should make available its terms of reference (UK Corporate Governance Code, provision D.2.1); this requirement would be met by putting a copy on the website of Kainos Group plc.

1. Definitions

In these terms of reference:

"**Board**" means the board of directors of the Company;

"**Committee**" means the remuneration committee of the Board; and

"**Group**" means the Company and its subsidiary undertakings from time to time.

2. Introduction

The primary purpose of the Committee is to assist the Board in determining the Company's remuneration policies. In performing its duties the Committee will maintain effective working relationships with the Board and HR personnel.

3. Membership

- 3.1 The Committee shall comprise at least three¹ members, all of whom shall be independent non-executive directors. The chairman of the Board may also serve on the Committee as an additional member if he or she was considered independent on appointment as chairman². Members of the Committee shall be appointed by the Board, on the recommendation of the nomination committee and in consultation with the chairman of the Committee.
- 3.2 Only members of the Committee have the right to attend Committee meetings. However, other individuals (such as the chief executive, the head of human resources and external advisers) may be invited to attend for all or part of any meeting, as and when appropriate and necessary. No member of the Board (or the Committee) shall attend meetings of the Committee where his or her own remuneration is under discussion.
- 3.3 Appointments to the Committee are made by the Board and shall be for a period of up to three years, extendable by no more than two additional three year periods, so long as members (other than the chairman of the Board, if he or she is a member of the Committee) continue to be independent.

¹ The UK Corporate Governance Code (provision D.2.1) reduces the number of members requirement for smaller companies from three to two. A smaller company is one that is below the FTSE 350 throughout the year immediately prior to the reporting year.

² The UK Corporate Governance Code (provision B.1.1) sets out certain indicators as to "independence". Except on appointment, the test of independence is not appropriate in relation to the chairman of the board.

3.4 The Board shall appoint the chairman of the Committee, who shall be an independent non-executive director. In the absence of the chairman of the Committee and/or an appointed deputy, the remaining members present shall elect one of their number to chair the meeting who would qualify under these terms of reference to be appointed to that position by the Board. The chairman of the Board shall not be chairman of the Committee.

4. Secretary

The Company secretary or his/her nominee shall act as the secretary of the Committee and shall ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to the issues.

5. Quorum

The quorum necessary for the transaction of business shall be two. 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.

6. Frequency of meetings

The Committee shall meet at least twice a year and otherwise as required³ by the chairman of the Committee.

7. Notice of meetings

7.1 Meetings of the Committee shall be called by the secretary of the Committee at the request of the chairman of the Committee. Meetings of the Committee may be conducted when the members are physically present or in the form of either video or audio conferences.

7.2 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 or invited to attend and all other non-executive directors no later than five 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. Papers required by the Committee may be provided electronically.

8. Minutes of meetings

8.1 The secretary of the Committee shall minute the proceedings and resolutions of all Committee meetings, including recording the names of those present and in attendance.

8.2 The secretary of the Committee shall ascertain, at the beginning of each Committee meeting, the existence of any conflicts of interest and minute them accordingly.⁴

8.3 Draft minutes of Committee meetings shall be circulated promptly to all members of the Committee. Once approved, minutes should be circulated to all other members of the Board,

³ *To be discussed.* The frequency and timing of meetings will differ according to the needs of the Company. Meetings should be organised so that attendance is maximised (for example, by timetabling them to coincide with board meetings).

⁴ Note, however, that under sections 177 and 182 of the Companies Act 2006, a director must declare his interest in a proposed or existing transaction or arrangement with the company to "the other directors". A declaration to a meeting of a committee of the board does not therefore satisfy this requirement.

unless a conflict of interest exists or, in the opinion of the chairman of the Committee, it would otherwise be inappropriate to do so.

9. AGM

The chairman of the Committee shall attend the annual general meeting to answer any shareholder questions on the Committee's activities.

10. Duties

The Committee shall carry out the duties below for the Company, parent company, major subsidiary undertakings and the Group as a whole, as appropriate.

The Committee shall:

- 10.1 have responsibility for setting the remuneration policy for all executive directors, the chairman of the Company and other members of senior management as it is designated to consider, including pension rights and compensation payments. The Board itself or, where required by the Company's articles of association, the shareholder should determine the remuneration of the non-executive directors within the limits set in the articles of association. No director or senior manager shall be involved in any decisions as to their own remuneration;
- 10.2 recognise and manage conflicts of interest when receiving views from executive directors or senior management, or when consulting the chief executive about its proposals;
- 10.3 recommend and monitor the level and structure of remuneration for senior management;
- 10.4 in determining such policy, take into account all factors which it deems necessary, including relevant legal and regulatory requirements, the provisions and recommendations of the UK Corporate Governance Code and associated guidance. The objective of such policy shall be to attract, retain and motivate executive management of the quality required to run the Company successfully without paying more than is necessary, having regard to views of shareholders and other stakeholders. The remuneration policy should have regard to the risk appetite of the Company and alignment to the Company's long term strategic goals. A significant proportion of remuneration should be structured so as to link rewards to corporate and individual performance and designed to promote the long-term success of the Company;
- 10.5 when setting remuneration policy for directors, review and have regard to pay and employment conditions across the Group, especially when determining annual salary increases;
- 10.6 review the ongoing appropriateness and relevance of the Company's remuneration policy;
- 10.7 within the terms of the agreed policy and in consultation with the chairman of the Board and/or the chief executive, as appropriate, determine the total individual remuneration package of each executive director, the chairman and other designated senior executives (including bonuses, incentive payments and share options or other share awards);
- 10.8 in determining such packages and arrangements, give due regard to any relevant legal requirements, the provisions and recommendations in the UK Corporate Governance Code and the listing rules of the Financial Conduct Authority and associated guidance;

- 10.9 obtain reliable, up to date information about remuneration in other companies of comparable scale and complexity. To help fulfil its obligations the Committee shall have full authority to appoint remuneration consultants and to commission or purchase any reports, surveys or information which it deems necessary at the expense of the Company but within any budgetary restraints imposed by the Board;
- 10.10 be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Committee;
- 10.11 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 (in accordance with the provisions in paragraph D.1.1 and Schedule A of the UK Corporate Governance Code);
- 10.12 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, company secretary and other designated senior executives and the performance targets to be used;
- 10.13 determine the policy for, and scope of pension arrangements, service agreements, termination payments and compensation commitments;
- 10.14 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;
- 10.15 oversee any major changes in employee benefits structures throughout the Group;
- 10.16 agree the policy for authorising claims for expenses from the directors; and
- 10.17 work and liaise as necessary with all other board committees.

11. General duties

In carrying out his specific duties set out above, each member of the Committee should also consider his general duties as a director of the Company, including:

- 11.1 his duty to act in the way he considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, having regard to all relevant factors;
- 11.2 his duty to exercise independent judgment;
- 11.3 his duty to exercise reasonable care, diligence and skill;
- 11.4 his duty to avoid conflicts of interest; and
- 11.5 his duty to act in accordance with the Company's constitution and only exercise his powers for the purposes for which they were conferred.

12. Reporting responsibilities

- 12.1 The chairman of the Committee shall report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.

- 12.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 12.3 The Committee shall ensure that provisions regarding disclosure of information, including pensions, as set out in the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) and the UK Corporate Governance Code, are fulfilled and produce a report of the Company's remuneration policy and practices to be included in the Company's annual report and ensure each year that it is put to shareholders for approval at the AGM. If the Committee has appointed remuneration consultants, the annual report of the Company's remuneration policy should identify such consultants and state whether they have any other connection with the Company.
- 12.4 The Committee shall assist the chairman of the Board to ensure that the Chairman of the Committee maintains contact as required with its principal shareholders about remuneration.

13. Other matters

The Committee shall:

- 13.1 have access to sufficient resources in order to carry out its duties, including access to the company secretariat and to any information it requires from any employee of the Company in order to perform its duties;
- 13.2 be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
- 13.3 give due consideration to laws, regulations and any published guidelines or recommendations regarding the remuneration of directors and the formation and operation of share schemes, including but not limited to, the provisions of the UK Corporate Governance Code and the requirements of the Financial Conduct Authority's Listing, Prospectus and Disclosure and Transparency Rules and, as well as guidelines published by the Investment Management Association and the National Association of Pension Funds, any other applicable rules], as appropriate;
- 13.4 arrange for periodic reviews of its own performance and, at least annually, review its 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; and
- 13.5 ensure that these terms of reference are made available by placing them on the Company's website.

14. Authority

The Committee is authorised by the Board to obtain, at the Company's expense, outside legal or other professional advice on any matters within its terms of reference.