

# Oxford Instruments plc

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Terms of Reference

Board Committees

1. Audit and Risk
2. Nomination
3. Remuneration
4. Administration

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## **1. Board Committees – Audit & Risk Committee**

### **Purpose of the Committee**

In summary, the Committee is responsible for monitoring the integrity of the financial statements of the Company and the internal control and risk processes which are relied upon by the Board. The Committee reviews the Group's financial statements, internal controls and risk management processes and considers the scope and planning of internal and external audits and the findings of the audits.

### **Membership**

The members of the Committee shall be at least three independent non-executive directors. At least one member of the Committee shall have recent and relevant financial experience. 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 Audit & Risk Committee. The Committee Chairman shall be an independent non-executive director and shall be appointed by the Board.

The membership of the Committee shall be reviewed annually by the Nomination Committee and the Audit & Risk Committee Chairman.

### **Quorum**

The quorum of the Committee shall be at least two members. 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.

### **Secretary**

The Company Secretary of the Company or his or her nominee shall be Secretary to the Committee. The Secretary 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.

### **Attendance**

Only members of the Committee have the right to attend Committee meetings. Others such as the Chairman, the Chief Executive, the Finance Director, the Head of Internal Audit and/or the Auditor shall be invited to attend all or part of any meeting as and when appropriate.

### **Frequency and Notice of meetings**

Meetings shall be held no less than three times a year and in addition shall be held as and when necessary to approve the financial content of shareholder statements. Unless otherwise agreed notice of each meeting together with an agenda shall be forwarded to members of the Committee, any other person required to attend and all other directors no later than five days before the date of the meeting. Supporting papers shall be sent to Committee members and to those attending as appropriate.

### **Advisers**

The Committee is authorised by the Board to seek appropriate professional advice on any matter within its terms of reference inside and outside the Group as and when it considers this necessary.



The Company's external auditors shall be invited to attend meetings of the Committee on a regular basis, including once at the planning stage before the audit and once after the audit at the reporting stage. At least once a year the Committee or representatives of it should meet the external auditors without the Executives present to discuss their remit and any issues.

## **Duties**

The duties of the Committee shall be as detailed below.

### **Financial Reporting**

The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half year reports, preliminary results' announcements and any other formal announcement relating to its financial performance, reviewing significant financial issues and judgements which they contain.

The Committee shall consider and confirm to the Board that it can validly make the statements to be included in the Company's annual report under the section on Directors' Responsibilities in relation to the Financial Statements.

The Committee shall review and challenge where necessary:

- changes in significant accounting policies and ensure consistency of application;
- the methods used to account for significant or unusual transactions where different approaches are possible taking into account any major judgmental areas highlighted by the external auditors;
- whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- all material information presented with the financial statements, such as the operating and financial review, the corporate governance statement, and related party transactions in so far as it relates to the audit;
- check that all material matters, such as contingent liabilities, including litigation, actual or pending, have been considered in preparing published statements;
- confirm to the Board that the contents of the Reports and Financial Statement are fair, balanced and understandable.

### **External Audit**

The Committee shall:

- consider and make recommendations to the Board in relation to the appointment, re-appointment and removal of the Company's external auditor;
- ensure that at least once every ten years the audit services contract is put out to tender and in respect of such tender oversee the selection process;
- if an auditor resigns, investigate the issues leading to this and decide whether any action is required;
- oversee the relationship with the external auditor including (but not limited to):
  - Approval of their fees
  - Approval of their terms of engagement and the scope of the audit



- Assessing annually their independence and objectivity taking into account (but not limited to) the provision of any non audit services
- Agreeing with the Board a policy on the employment of former employees of the Company's auditor and monitoring the implementation of this policy
- Monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners
- Assessing annually the effectiveness of the audit process
- meet regularly with the external auditor (including once at the planning stage before the audit and once after the audit at the reporting stage) and at least once a year without management being present to discuss the auditor's remit and any issues arising from the audit;
- review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement
- review with the external auditors the results of their audit, including any major issues which arose during the audit, key accounting and audit judgements, levels of errors identified during the audit, the effectiveness of the audit process together with the quality of accounting, accountants and controls within the Group and its subsidiaries.
- review any representation letter(s) requested by the external auditor before they are signed by management;
- review the management letter and management's response to the auditor's findings and recommendations;
- develop and implement a policy on the supply of non-audit services by the external auditor.

### **Internal Audit and Risk**

The Committee shall

- approve the appointment or termination of appointment of the Group Audit & Risk Manager (GARM);
- ensure the GARM has direct access to the board chairman and to the committee chairman and is accountable to the committee;
- consider annually what resources are needed for an effective internal audit and risk function and make recommendation to the Board accordingly;
- review the annual internal audit and risk plans and the results of such work;
- ensure that adequate resources and appropriate access to information is provided to enable the internal audit and risk process to function effectively and to enable the directors to form an opinion as to the effectiveness of internal controls;
- review the Company's internal controls and related risk management systems;
- review annually the key risks inherent and emerging in the Group and the system of internal control necessary to monitor such risks;
- keep under review the Group's overall risk assessment processes that inform the board's decision making
- review regularly and approve the parameters used in these processes and the methodology adopted;
- review reports on any material breaches of risk limits and the adequacy of proposed action



- keep under review the effectiveness of the company's internal financial controls and internal controls and risk management systems and review and approve the statements to be included in the annual report concerning internal controls and risk management.
- review and monitor management's responsiveness to the GARM's auditor's findings and recommendation;
- approve the form of the management compliance letter, which shall be completed at least once per year by each business' Managing Director;
- bi-annually review internal financial and non-financial controls; and
- meet with the GARM at least once a year without the presence of management.

### **Business Malpractice**

The Committee shall review the:

- adequacy and security of the Company's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigations of such matters and appropriate follow up action;
- Company's procedures for detecting fraud;
- Company's systems and controls for the prevention of bribery and receive reports of non-compliance.

### **Reporting Responsibilities**

The Committee shall:

- compile, and recommend to the Board for approval, a report on its activities which is compliance with the requirements of the UK Corporate Governance Code to be included in the Company's annual Report;
- report to the Board any matters where it considers that action or improvement is needed;
- advise the Board on the Directors' responsibilities in relation to the financial statements and recommend to the Board for approval the statement to be included in the Company's annual Report.

The Committee Chairman shall report to the Board on the Committee's discussions, findings and agreed actions

### **Other Matters**

The Committee:

- shall have access to sufficient resources in order to carry out its duties;
- shall be responsible for co-ordination of the internal and external auditors;
- shall review at least annually its own performance, constitution and terms of reference to ensure it is operating effectively and recommend any changes it considers necessary to the Board for approval;



- can seek any information it requires from any employee of the Company in order to perform its duties and call any employee to be questioned at its meetings.

**Minutes**

The minutes of meetings of the Committee, including the names of those present and in attendance, shall be kept and the minutes of meetings of the Committee shall be circulated to all members of the Board and where appropriate to the external auditors.

**Annual General Meeting**

The Chairman of the Committee shall attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities.



## **2. Board Committees – Nomination Committee**

### **Purpose of the Committee**

In summary, to lead the process for Board appointments and make recommendations to the Board. The Committee also considers the Chief Executive's reports from time to time on succession planning and reviews the performance of the Chief Executive.

### **Membership**

The members of the Committee shall be at least two non-executive directors plus the Chairman of the Board. The Chairman and members of the Committee shall be appointed by the Board. The Committee Chairman or an independent non-executive director shall be the Chairman of the Board. The majority of committee members shall be independent non-executive directors.

### **Quorum**

The quorum of the Committee shall be at least two independent non-executive directors. 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. The chairman of the board shall not chair the committee when it is dealing with the matter of succession to the chairmanship.

### **Secretary**

The Company Secretary of the Company or his or her nominee shall be Secretary to the Committee. The Secretary 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.

### **Attendance**

Only members of the Committee have the right to attend Committee meetings. Others such as the Chief Executive, the head of human resources and external advisers shall be invited to attend all or part of any meeting as and when required.

### **Frequency and Notice of meetings**

Meetings shall be held not less than once a year. Notice of each meeting together with an agenda shall be forwarded to members of the Committee, any other person required to attend and if appropriate all other directors normally no later than working days before the date of the meeting. Supporting papers shall be sent to Committee members and to those attending as appropriate, at the same time.

### **Advisers**

The Committee is authorised by the Board to seek appropriate professional advice on any matter within its terms of reference inside and outside the Group as and when it considers this necessary.



## **Duties**

The Committee shall:

- review at least annually the structure, size and composition (including the skills, knowledge, experience, diversity and independence) required of the Board and make appropriate recommendations to the Board as appropriate;
- be responsible for identifying and nominating for the approval of the Board, candidates to fill board vacancies as and when they arise;
- before any appointment is made to the Board, evaluate the balance of skills, knowledge, experience, diversity and independence on the Board and, in the light of this evaluation prepare a description of the role and capabilities required for a particular appointment. In identifying suitable candidates the Committee shall, where appropriate, use external services to facilitate the search. Candidates should be considered from a wide range of backgrounds, be considered on merit against objective criteria, taking care that appointees have enough time available to devote to the position;
- ensure that before appointment any proposed new non-executive directors receives a draft letter of appointment setting out clearly what is expected of them in terms of time commitment, committee service and involvement outside board meetings; This is followed by a formal letter on appointment.
- make recommendations to the Board for the succession of both executive and non-executive directors and in particular for the key roles of Chairman and Chief Executive;
- make recommendations to the Board for suitable candidates for the role of Senior Independent Director, and, in consultation with the chairman of those committees, of membership of the Audit and Remuneration Committees, the re-appointment of any non-executive director at the conclusion of their specified term of office and the re-election by shareholders of any director under the annual re-elections provisions of the UK Corporate Governance Code.
- annually receive and review a report on succession planning for the Group's Executive Directors and senior managers with a view to keeping under review the leadership needs of the organisation and to ensuring the continued ability of the organisation to compete effectively in the marketplace.
- annually review the performance of the Chief Executive.
- be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any nomination consultants who advise the committee.

## **Reporting Responsibilities**

When required, the Committee shall compile, and recommend to the Board for approval, a report to shareholders about its activities, the process used to make appointments and explain if external advice or open advertising has not been used to be included in the Company's Annual Report.

## **Other Matters**

The Committee shall review at least annually its own performance, constitution and terms of reference to ensure it is operating effectively and recommend any changes it considers necessary to the Board for approval.



It shall have access to sufficient resources in order to carry out its duties.

### **Minutes**

A written record of meetings shall be kept and the minutes of meetings of the Committee shall be circulated to all members of the Board, unless a conflict of interest exists.

### **Annual General Meeting**

The Chairman of the Committee shall attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities.



### **3. Board Committees – Remuneration Committee**

#### **Purpose of the Committee**

In summary, to recommend to the Board the Company's general policy on remuneration and in particular to determine the remuneration packages for the Chairman and the Executive Directors.

#### **Membership**

The members of the Committee shall be at least three independent non-executive directors plus the Chairman of the Board. 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 Remuneration Committee. The Board shall appoint the Committee Chairman. The Board considers the Chairman of the Board should be a member of the Remuneration Committee as it is essential that the Chairman be involved in the work of the Committee and in particular the setting of the Executive Directors' remuneration.

The Board shall appoint the Committee Chairman who shall be an independent non-executive director.

The membership of the Committee shall be reviewed annually by the Nomination Committee and the Remuneration Committee Chairman.

#### **Quorum**

The quorum of the Committee shall be at least two members. 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.

#### **Secretary**

The Company Secretary of the Company or his or her nominee shall be Secretary to the Committee. The Secretary 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.

#### **Attendance**

Only members of the Committee have the right to attend Committee meetings. Others such as the Chief Executive, Group HR Director and external advisers may be invited to attend all or part of any meeting as and when required.

In particular, the Chief Executive reports to the Committee on the performance of other executive directors and on significant group-wide changes in salary structure and terms and conditions affecting other employees at senior executive level.

#### **Frequency and Notice of meetings**

Meetings shall be held not less than twice a year. Unless otherwise agreed notice of each meeting together with an agenda shall be forwarded to members of the Committee, any other person required to attend and where appropriate to all other directors normally no later than five days before the date of the meeting. Supporting papers shall be sent to Committee members and to those attending, as appropriate, at the same time.



## **Advisers**

The Committee is authorised by the Board to seek appropriate professional advice on any matter within its terms of reference inside and outside the Group as and when it considers this necessary.

## **Duties**

The Committee shall:

- determine and agree with the Board the remuneration policy for the Company's Chief Executive and executive directors. The Board shall determine the remuneration of the Non-Executive Directors within the limits set in the Articles of Association. For the avoidance of doubt no director or manager shall be involved in any decisions relating to their own remuneration.
- recommend and monitor the level and structure of remuneration for senior management;
- In determining such policy the Committee will take into account all factors which it deems necessary:-
  - 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 the view 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 structures so as to link rewards to corporate and individual performance and designed to promote the long term success of the Company. and
  - Review the ongoing appropriateness and relevance of the remuneration policy; and
  - Give due regard to any relevant legal requirements, the provisions and recommendations in the UK Corporate Governance Code and the UK Listing Authority's Listing Rules and associated guidance; and
  - Approve the design of, and determine the targets for, performance related pay schemes and approve the total annual payments made under such schemes; and
  - Determine the policy for pension arrangements for each executive director and other senior managers; and
  - Recognise that performance related elements of remuneration need to be aligned with the long-term success of the Company; and
  - When setting remuneration policy, review and have regard to pay and employment conditions across the organisation, especially when determining annual salary increases; and
  - Align remuneration policies with the Company's risk policies and systems; and
  - Review the on-going appropriateness and relevance of the remuneration policy.
- determine and agree, in the absence of the Chairman, all matters relating to the Chairman's remuneration;



- 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 and the performance targets to be used;
- within the terms of the agreed policy and in consultation with the Chairman and/or Chief Executive as appropriate, determine the total individual remuneration package for each executive director the Company Chairman and other designated senior executives including bonuses, incentive payments, share options and pension benefits;
- approve any contract of employment or related contract with executive directors on behalf of the Company;
- determine the terms of any compensation package in the event of early termination of the contract of any executive director ensuring they are fair to the individual, and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised;
- agree the policy for authorising claims for expenses from the directors;
- review and note annually the remuneration trends across the Group and oversee any major changes in employee benefit structures throughout the Group;
- ensure that all the provisions regarding the disclosure of remuneration including pensions, as set out in the Directors' Remuneration Report Regulations 2002 and the Combined Code are fulfilled and make recommendations to the Board regarding the content of the Board's annual report to shareholders on the same;
- be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the committee;
- Work and liaise as necessary with other board committees.

### **Reporting Responsibilities**

The Committee shall:-

- compile, and recommend to the Board for approval, a report to shareholders on the Company's remuneration policy and practices and its implementation during the year to be included in the Company's annual Report and ensure each year that the remuneration policy and the annual report on remuneration are put to shareholders for approval at the AGM.
- Make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

### **Other Matters**

The Committee shall review at least annually its own performance, constitution and terms of reference to ensure it is operating effectively and recommend any changes it considers necessary to the Board for approval.



**Minutes**

A written record of meetings, including the names of those present and in attendance, shall be kept and the minutes of meetings of the Committee shall be circulated to committee members and if appropriate other directors.

**Annual General Meeting**

The Chairman of the Committee shall attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities.



## **4. Board Committees – Administration Committee**

### **Purpose of the Committee**

In summary, the Committee has delegated authority from the Board to deal with items of a routine and administrative nature as set out below.

### **Membership**

The members of the Committee shall be at least two directors. The quorum of the Committee shall be two members. The chairman of meetings of the Administration Committee is the Chairman of the Board if present or him failing the Chief Executive if present or him failing the Finance Director if present or him failing such member present as the Administration Committee members present shall decide.

### **Secretary**

The Company Secretary of the Company or his or her nominee shall be Secretary to the Committee.

### **Frequency of meetings**

Meetings shall be held as and when required. Meetings may be convened by the Company Secretary, or by any Director by notice to any two Directors of whom one may be the Director convening the meeting. It is not necessary for the notice to be given to all Directors

### **Duties**

The Committee shall meet to execute items relating to the following matters:

- Deeds of amendment to the Oxford Instruments Pension Scheme
- Banking arrangements including guarantees, facilities, foreign exchange, and overdrafts
- The formal approval of the preliminary and half year results including the approval of any dividend payments, the balance sheet, the profit and loss account of Oxford Instruments plc and the calling of any general meeting of the shareholders
- Amendments to the Company's share schemes
- The granting and exercise of options under the company's share schemes
- Powers of attorney
- Freehold and leasehold property matters
- The exercise of the Company's powers to appoint and remove directors of subsidiary companies and directors of other companies of which the company is entitled to appoint directors
- Matters delegated to it by the main Board and
- Other minor matters requiring approval

### **Reporting Responsibilities**

The Committee shall compile a report for the main Board of Directors of the meetings held between each of the scheduled meetings of the main Board.

The Committee's duties and activities during the year shall be disclosed in the annual Report and Accounts.



**Other Matters**

The Committee shall review regularly its constitution and terms of reference to ensure it is operating effectively and recommend any changes it considers necessary to the Board for approval.

