

VOLUNTARY CODE OF CONDUCT IN RELATION TO EXECUTIVE REMUNERATION CONSULTING IN THE UNITED KINGDOM

Preamble

Executive remuneration consultants are business advisers who provide a valuable service to companies, and in particular remuneration committee, by providing information, analysis and advice regarding the structure and quantum of remuneration packages for senior executives. In providing this service, the role of consultants is to assist decision makers within the governance structure of the company to make the most informed and appropriate decisions possible having due regard to the organisation's strategy, financial situation, and pay philosophy; the Board's statutory duties; and the views of institutional investors and other stakeholders.

This Code seeks to clarify the scope and conduct of the executive remuneration consultants' role, while recognising that all substantive executive remuneration decisions are made by the appropriate governance bodies in the company.

Background, Purpose & Scope

This Code of Conduct seeks to make clear the role of executive remuneration consultants, the manner in which they conduct business and the standards of behaviour expected of them.

It is concerned primarily with the way in which remuneration consultants (whether they be firms or individual practitioners) ("Consultants") provide advice to UK listed companies on executive remuneration matters. For the purpose of this Code, these are matters which are recommended by the UK Combined Code to fall within the terms of reference of a company's Remuneration Committee. By definition, they include all elements of directors' remuneration.

It is recognised that in the area of executive remuneration there is the potential for real or perceived conflicts of interest in that:

- executive directors may have personal interests which the Remuneration Committee may consider out of line with the broader interests of shareholders or the company as a whole;

- where advice is provided by Consultants to both the Remuneration Committee and management – whether this is solely in the area of executive remuneration or in other areas – it might be considered as being compromised (by the Consultant’s own commercial interests or the potentially different interests or perspectives of those to whom the Consultant is providing advice).

The aim of this Code is to recommend ways in which these potential conflicts of interest may be minimised and thereby to foster shareholder and Remuneration Committee confidence in the integrity and objectivity of Consultants.

In this connection it is important to clarify the role that executive remuneration consultants fulfil. Their role is to provide advice and information which they believe to be appropriate and in the best interests of the company. Their input should take fully into account the Combined Code principle that pay should be sufficient, without being excessive, to attract, retain and motivate executives of the right calibre.

The purpose of their input is to support robust and informed decision making by the company on remuneration matters. This is the case regardless of whether these are decisions of the Remuneration Committee or executive directors. Under the UK’s unitary board structure, both share a common duty to promote the success of the company.

As far as the scope of this Code is concerned:

- it should be recognised that executive remuneration advice is almost always provided to companies (as opposed to individuals seeking advice on their own account) and that client companies will have their own governance codes and processes to assess quality and minimise conflicts;
- this is a voluntary code of conduct and good practice to which it is hoped that all Consultants will build into their terms of business with clients;
- this Code will be reviewed in 2010 and periodically thereafter.

As with the Combined Code, the principles and processes set out in this Code are intended to apply to work carried out for UK fully listed companies and, particularly, the FTSE 350. It is recognised that other organisations may have different governance structures which means that not every aspect of this Code may be relevant. However, it is expected that the same values will be applicable when work is conducted for other organisations which are either not fully listed or do not have a primary listing in the UK.

The authors of this Code recognise that other professional advisors may give advice to Remuneration Committees from time to time (such as solicitors, executive search consultants and actuaries). The Code is not primarily concerned with firms acting in that capacity (which will be governed by other professional

codes) although they should also consider whether some or all of the contents of this Code may be relevant to their dealings with clients.

Fundamental Principles

Executive remuneration consultants, comparable with other business professionals, should comply with the fundamental principles of transparency, integrity, objectivity, competence, due care and confidentiality. They should also ensure that, whether or not part of a larger consulting group providing a wider range of services, their internal governance structures promote the provision of objective and independent advice. This Code is designed to be complementary to such governance structures and any other codes relating to the professional bodies of which Consultants may be members.

The balance of this Code expands upon these fundamental principles and contains in the Appendix good practice guidelines on the ways in which these principles should apply.

Transparency

The role of Consultants is not to make decisions for their clients but to assist them in making fully informed decisions. To that end, all substantive advice should be clear and transparent with relevant and appropriate data presented objectively.

Where the Consultant is formally appointed to advise the Remuneration Committee, there should, be a clear commitment for the Consultant to make available to the Chair of that Committee an agreed set of disclosures at the outset of the engagement and then annually thereafter. This will include information on the scope and cost of work provided by the Consultant's firm to the company in addition to work provided to the Remuneration Committee.

Integrity

Consultants should be straightforward and honest in all professional and business relationships. This implies a duty to deal with matters fairly and openly.

Management of Conflicts to Ensure Objectivity

Consultants should not allow conflict of interest or influence of others to override professional or business judgements and must ensure that they provide the best and most appropriate advice to the client as possible. A key to managing such conflicts is to ensure clarity in identifying the client, establishing the role expected of the Consultant and agreeing the processes and protocols to be followed.

When the Consultant is appointed as a principal advisor to the Remuneration Committee, it is important to agree with the Chair of the Remuneration Committee and record, at the outset of the engagement, supporting protocols in order to safeguard objectivity. These are likely to cover information provision and the basis for contact with executive management. In addition, to manage potential conflicts of interest effectively:

- Consultants should not accept fees contingent on the introduction of new remuneration arrangements or the remuneration package (s) agreed for executives
- Consultants should not adopt the role of their firm's client relationship manager for the provision of non-related services on accounts where they are the principal executive remuneration consultant.

Competence and Due Care

The principle of competence and due care means that clients are entitled to have confidence in a Consultant's work and imposes an obligation on Consultants to maintain their knowledge at an appropriate level and carry out their work in a careful, thorough and timely manner.

To ensure that all individual consultants within a firm comply with the Code, each firm:

- should have a general code of business conduct which is provided to employees advising in this area;
- should provide training and professional development for all consultants which ensures that they are competent to consult within the framework of this Code.

Confidentiality

Consultants should respect the confidentiality of information acquired as a result of professional and business relationships and should not disclose such information to third parties without proper and specific authority unless there is a legal or professional right or duty to disclose.

Appendix

Good Practice Guidelines

These guidelines are provided to illustrate how the Code principles may be followed.

Transparency

1. Reports prepared by Consultants should explain the context in which advice is provided and, when advising on potentially significant changes in policy, they should comment on how any proposals compare with best practice and published guidance.
2. Selection of an appropriate comparator group for benchmarking purposes should involve careful judgment. Any report should be clear on the types of companies comprised within the comparator group(s) used and the rationale for their selection and summarise the methodology used to value different elements of the package.
3. Reports and other written documents should identify the sources of information used. It should be made clear where the Consultant is relying on information provided by management or from other consulting firms. Where the Consultant contributes to a joint report with management, it should be clear in the report what is the Consultant's opinion and what is management's opinion.
4. Recognising that internal advice or other Consultants' (e.g. advisors to management) advice may be presented by others to the Remuneration Committee and relied on by it, Consultants should be particularly careful to ensure that their written advice is capable of being read and understood by the Remuneration Committee without the advisor present.
5. All appointments should be governed by an engagement letter between the Consultant and the client company ("Client") making it clear whether the Consultant's primary reporting relationship is to the Remuneration Committee, the HR Director or otherwise.
6. There should be a clear understanding of the role the Consultant is expected to play when appointed to advise the Remuneration Committee and, specifically, whether the role is to be a principal advisor to the Remuneration Committee on a range of remuneration related issues (as opposed to simply providing data or advice on an ad hoc basis or just on specific topics).
7. In order to be aware of and mitigate any potential conflicts of interest, when the Consultant is appointed as principal advisor to the Remuneration Committee, the Committee Chair should agree with the

Consultant a set of disclosures at the outset of the engagement and annually thereafter. The precise nature and frequency of the information to be provided should be agreed by the Consultant with the Chair of the Remuneration Committee. Information should be available on:

- The areas on which the Consultant is engaged to advise the Remuneration Committee and any areas where it has been agreed that the Consultant should not provide advice;
- the scope and cost of work provided by the Consultant's firm to the company, or senior executives of the company, in addition to work performed directly for the Remuneration Committee;
- the safeguards in place to ensure that information provided by the client company are kept confidential and separate both from information of other clients and from other departments within the Consultant's wider firm;
- the Consultant's code regarding ownership of, and dealing in, the shares of clients companies;
- the way in which the personal remuneration of the principal Consultants engaged in advising on executive remuneration issues is affected, if at all, by the cross-selling of non-related services;
- the process for maintaining quality assurance, ensuring that work covered by this Code is kept independent of any other services provided by the Consultant's firm and for dealing with complaints.

Integrity

8. When they are appointed as principal advisors to the Remuneration Committee, Consultants should alert the Chair of the Remuneration Committee when they become aware that their advice is being presented in the context of reports, communications or other information where they believe that the information is false or misleading or omits or obscures required information where such omission or obscurity could be misleading.
9. When dealing with institutional investors on behalf of a company, Remuneration Consultants should act as facilitators of the communication process. Their primary responsibility is to set out and explain the Remuneration Committee's proposals to shareholders and then to represent fully to the Remuneration Committee all the views expressed to the Consultant in their capacity as agent for the Committee.
10. Consultants should only market their services to both current and prospective clients in a responsible way. Bespoke pay benchmarking reports require Remuneration Committee input into the selection of comparator groups and should not be sent to clients or non-clients on an unsolicited basis.

Objectivity

11. When the Consultant is appointed as principal Remuneration Committee advisor, there are a number of protocols and processes which should be established from the outset to ensure that the Consultant is able to provide best advice in a manner which meets the Remuneration Committee's requirements.

These include:

- agreeing a process to ensure that the Consultant has sufficient information to provide advice in context (which may be achieved by providing for the Consultant to receive copies of all or most Remuneration Committee papers and minutes, not just those relating to matters upon which he or she is specifically being asked for advice);
- an agreement that the Consultant meets at least annually with the Remuneration Committee Chair in order to review remuneration issues and any implications of business strategy development and market change;
- clarity on the extent to which the Consultant should have access to and/ or provide advice to management;
- confirmation of the process by which any information and recommendations relating to the Chief Executive Officer and other executives are to be communicated to the Remuneration Committee and the manner and extent to which such information and recommendations should also be communicated to executive management;
- agreement on the flow of papers and, in particular, whether draft papers may be sent to management to check facts and understanding of context prior to being sent to the Remuneration Committee Chair.

Competence and Due Care

12. The right for Clients to have confidence in a Consultant's work means that if work which a Consultant considers necessary is precluded by cost or time constraints, then they must either decline to act or qualify the advice.

13. Where a Consultant is aware of any limitations in their advice, they should make their Client aware of such limitation.