



Terms of Reference of the Remuneration Committee (“Committee”) of the Board of Directors (“Board”) of Optos plc (“Company” or “Group”)

Constitution and Authority

1. The Committee is established as a Committee of the Board of the Company as established in the Articles of Association of Optos plc and in accordance with The UK Corporate Governance Code Governance (the “Code”) (June 2010).
2. The Committee’s principal responsibilities are to determine and recommend to the Board, the Group’s overall policy for Executive Director remuneration, including for the direct reports of the Chief Executive Officer (‘CEO’) and members of the Operating Board (‘OB’), its alignment to performance and its cost, advising on the overall policy for total compensation for all other employees and on share schemes, pensions and employee share trust matters.
3. The Committee is authorised to undertake any activity within these terms of reference and to seek any information it properly requires in order to perform its duties from any employee of the Company or any subsidiary company of the Optos plc group. All employees are directed to co-operate with any request made by the Committee.
4. The Committee is authorised by the Board to obtain, at the Company’s expense, internal or external independent professional advice, as the Committee considers appropriate. A budget is set aside for such advice. The Secretary to the Committee maintains a register of the independent advisors who provide services to the Committee.
5. Each member of the Committee discloses to the Committee:
 - 5.1. any personal financial interest (other than as a shareholder) in any matter to be decided by the Committee; or
 - 5.2. any potential conflict of interest from a cross-directorship or other activity; and any such member will abstain from voting on resolutions of the Committee in relation to which such interest exists and from participating in the discussions concerning such resolutions and (if so required by the Board) will resign from the Committee.

Composition and Meetings

6. The Board, on the recommendation of the Nomination Committee and in consultation with the Chairman of the Remuneration Committee, appoints the Committee membership from amongst the non-executive Directors of the Company.
7. The Board appoints the Chairman of the Committee, who shall be an independent non-executive director. In the absence of the Chairman of the Committee, the remaining members present shall elect one of their number to chair the meeting. The Chairman of the Board shall not be Chairman of the Committee.
8. The Committee shall consist of at least three members, all of whom are 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 Chairman. A quorum shall be two members.

9. Committee members will normally serve for a period of up to three years (extendable by no more than two additional three year periods provided the director still meets the criteria for membership of the Committee) and subject to the members' retirement by rotation in accordance with the terms of the Company's Articles of Association. Wherever practical, the Chairmanship and membership of the Committee shall be regularly rotated.
10. No one other than the Chairman of the Remuneration Committee and its members is entitled to be present at a meeting of the Remuneration Committee. Attendance at meetings of the Remuneration Committee by non-members, the Chairman of the Board (if not a member), the Chief Executive and other members of the Board shall be at the sole discretion of the Remuneration Committee.
11. The Committee will normally appoint the Company Secretary or his or her nominee to be the Secretary to the Committee. This individual shall attend meetings of the Committee where invited to by the Chairman of the Remuneration Committee and shall prepare and circulate to Committee members and (and invitees as appropriate) all information and papers in a timely manner to enable them to give full and proper consideration to the issues. The Chairman of the Committee or the Company Secretary shall prepare minutes of the Remuneration Committee meetings and shall circulate them to all members of the Remuneration Committee.
12. Meetings are held as and when appropriate, but not less than twice per year. A timetable of business is established once per year. Any member of the Remuneration Committee may request a meeting if s/he considers that one is necessary or expedient.
13. The Committee may invite any person it thinks appropriate to attend all or part of any Committee meetings to present on matters of interest to the Committee or to present management proposals. No member of the Board shall participate at a meeting of the Committee (or part thereof) at which any part of his or her remuneration is being discussed nor participate in any recommendation or decision concerning his or her remuneration.

Duties and Responsibilities

14. The duties of the Remuneration Committee shall be to make recommendations to the Board on the Company's overall policy, its alignment to performance and its cost. The Committee will undertake to review market data from time to time and consider its implications for the Company's overall remuneration policy. The remuneration of non-executive Directors shall be a matter for the Chairman and the Executive members of the Board. No director shall be involved in any decisions as to their own remuneration.

- 14.1. **Remuneration Practice:** Determine, and recommend to the Board, specific remuneration packages for each of the Executive Directors, the direct reports of the Chief Executive Officer ('CEO') and members of the Operating Board ('OB') based upon an annual performance appraisal. The Committee may, subject to 5.1 above and to the performance of the Executive Directors, the direct reports of the Chief Executive Officer and members of the Operating Board recommend changes as seen fit. These may include, but are not limited to, an annual salary increase, an annual bonus in line with the annual incentive plan, and/or an award under a long-term incentive plan. Review annually the pension rights and any



other benefits afforded to the Executive Directors, the direct reports of the Chief Executive Officer and members of the Operating Board.

- 14.2. **Executive Directors Employment Terms:** Review at least annually, the Service Contracts and the obligations therein of the Executive Directors to ensure that the Contracts meet the needs of the business, encourage performance, and comply with regulatory requirements and good practice.
- 14.3. **Company Policy on Total Compensation:** Receive from the Company's management, and endorse or provide feedback on the Company's overall policy for total compensation for all employees, including base salaries, benefits, annual bonuses, longer term incentives, pensions and other retirement plans. Review and endorse total budgets for annual salary reviews and bonus awards.
- 14.4. **Key Appointments and Leavers:** Receive a report from the Company's management on key appointments, including senior management positions in the Optos plc and/or its subsidiary companies.
- 14.5. **Subsidiary Company Remuneration:** Receive a report from the Remuneration Committees of Group subsidiaries at least annually. If no Committee exists, to receive the report from the directors of the subsidiary. To approve all proposals in relation to remuneration and long-term incentives for directors and senior management at subsidiary companies.
- 14.6. **Pension Schemes and Retirement Plans:** Receive reports from the Company's Management on pension provisions for employees, and the financial consequences to the Company of said schemes/plans. Consider, and make recommendations to the board on policy changes.
- 14.7. **Employee Inventors:** Approve proposals from the Company's management for awards to employee inventors in line with Company policy and the Patents Act 1977.
- 14.8. **Human Resources:** As appropriate, the Committee will seek external advice and consult with Global Human Resources of the Company.
- 14.9. In carrying out its duties under these terms of reference, the Remuneration Committee should have regard to the terms of The UK Corporate Governance Code (set out in the Listing Rules or the UK Listing Authority of the FSA) (the **Listing Rules**) which provide that the Committee should:
 - i. provide the packages needed to attract, retain and motivate Executive Directors of the quality required, but should avoid paying more than is necessary for this purpose;
 - ii. judge where to position the Company relative to other companies. They should be aware what comparable companies are paying and should take account of relative performance (but they should use such comparisons with caution, in view of the risk that they can result in an upward ratchet of remuneration levels with no corresponding improvement in performance);



- iii. be sensitive to the wider scene, including pay and employment conditions elsewhere in the Company and its subsidiaries, especially when determining annual salary increases;
- iv. ensure that the performance-related elements of remuneration form a significant proportion of the total remuneration package of Executive Directors and should be designed to align their interest with those of shareholders and to give these directors keen incentives to perform at the highest levels;
- v. ensure that executive share options are not offered at a discount save as may be permitted;
- vi. in designing schemes of performance-related remuneration, should follow the provisions in Schedules attached to The UK Corporate Governance Code.

15. Without prejudice to the generality of the terms of reference to the Committee set out above, the Committee will:

- 15.1. operate the Company's share option schemes/other incentives schemes (if any) as they apply to, and determine grants of options to be made to, Executive Directors. It recommends the total aggregate amount of any grants to employees (with the specific grants to individuals to be at the discretion of the Board) and make amendments to the terms of such schemes (subject to the provisions of the schemes relating to the amendment);
- 15.2. review the assessment made by the Company's share option plan administrator as to whether the performance conditions associated with share option plans or restricted share awards have been met or fall within the scope of re-testing;
- 15.3. delegate the signing of share option certificates and restrict share awards to an approved list of Company senior managers and Executive Directors;
- 15.4. liaise with the trustee of any employee share scheme which is created by the Company for the benefit of employees or directors;
- 15.5. keep the Chairman of the Board fully informed of its actions if he is not a member.

Reporting

- 16. The Committee shall make any recommendations to the Board it deems appropriate on any areas within its terms of reference where action or improvement is needed.
- 17. The Committee shall produce an annual report of the Company's remuneration policy and practices and of the activities of the Committee which will form part of the Company's annual Report and shall each year put it to shareholders for approval at the AGM in compliance with The UK Corporate Governance.



18. The Chairman of the Remuneration Committee shall be available to answer questions through the Chairman of the Board on the report on the Remuneration Committee's activities and matters falling within its terms of reference at the Annual General Meeting of the Company.
19. The Company shall make publicly available its terms of reference.

Performance Review

20. The Committee shall, at least once a year, consider its own performance, constitution and terms of reference to ensure that it is operating at maximum effectiveness and shall recommend any changes necessary to the Board for approval.

Minutes

21. The Secretary shall minute the proceedings and resolutions of all committee meetings, including the names of those present and in attendance.
22. The Secretary shall circulate the minutes of the meetings of the Committee to all members of the Committee and the Chairman of the Board and, if requested so to do by the Committee, shall make them available to other members of the Board unless a conflict of interest arises and to relevant advisers.

Resolution of Disagreements

23. Where disagreements between the Committee and the Board cannot be resolved, the Committee shall report the issue to the shareholders as part of the report on its activities in the Company's annual report.

John McNeil
Company Secretary
September 2010