

## **Micro Focus International plc**

### **Terms of Reference of the Remuneration Committee**

References to "the Committee" shall mean the Remuneration Committee.

References to "the Board" shall mean the Board of Directors.

References to "the Company" shall mean Micro Focus International plc.

References to "Executive Management Team" shall mean each member of the executive management team and the company secretary, present or prospective.

#### **1 Membership**

- 1.1 Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chair of the Remuneration Committee. The Committee shall be made up of at least three members, all of whom are independent non-executive directors.
- 1.2 Only members of the Committee have the right to attend Committee meetings. However, other individuals may be invited to attend for all or part of any meeting as and when appropriate but shall not be present when their own remuneration is being discussed.
- 1.3 Appointments to the Committee shall be for a period of up to three years, which may be extended by no more than two additional three-year periods, provided the director remains independent.
- 1.4 Following a recommendation of the Nomination Committee, the Board shall appoint the Committee Chair who shall be an independent non-executive director and has served on a remuneration committee for at least 12 months. In the absence of the Committee Chair and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting. The Chair of the Board shall not be Chair of the Committee.

#### **2 Secretary**

The company secretary or their nominee shall act as the Secretary of the Committee.

#### **3 Quorum**

- 3.1 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.
- 3.2 Members of the Committee may attend in person or participate by other means which allows those participating to hear and speak to each other, including teleconference or video conference and quorum in that event shall be any two Committee members so linked.

#### **4 Meetings**

The Committee shall meet at least twice a year and at such other times as the Chair of the Committee shall require.

#### **5 Notice of Meetings**

- 5.1 Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of any of its members.
- 5.2 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 requested to attend and all other non-executive directors, no later than 5 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.

## **6 Minutes of Meetings**

- 6.1 The Secretary (or other nominated person) shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.
- 6.2 The Secretary (or other nominated person) shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 6.3 Minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to all members of the Board, unless the Committee Chair considers that a conflict of interest exists.

## **7 Annual General Meeting**

The Chair of the Committee shall attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities or nominate another member of the Committee to attend in his or her place.

## **8 Duties**

### **8.1 The Committee shall:**

- 8.1.1 determine the remuneration policy for the Chair of the Board and executive directors. No director shall be involved in any decisions as to their own remuneration;
- 8.1.2 submit for approval by the Board and shareholders a directors' remuneration policy (to be included in the annual remuneration report referred to in paragraph 9.3 below):
  - (a) at least every three years;
  - (b) in any year in which there is proposed to be a change relative to the prior year;
  - (c) if shareholder approval was not achieved when last submitted;
  - (d) if majority shareholder approval was not achieved in respect of the last submitted annual remuneration report; or
  - (e) as otherwise required by law;
- 8.1.3 ensure the objective of the remuneration policy is to attract, retain and motivate executives of the quality required to run the Company and to deliver sustainable improvements in performance. Individuals should be fairly and responsibly rewarded for their individual contributions to the success of the Company but the Committee should seek to avoid paying more than is necessary;
- 8.1.4 review the ongoing appropriateness and relevance of the remuneration policy;
- 8.1.5 in determining the remuneration policies and practices in respect of the Chair of the Board (if an executive Chair), each executive director and the Executive Management Team, address all the factors it deems necessary and in particular consider the following:
  - (a) clarity: remuneration arrangements should be transparent and promote effective management with shareholders and the workforce;
  - (b) simplicity: remuneration structures should avoid complexity and their rationale and operation should be easy to understand;

- (c) risk: remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated;
  - (d) predictability: the range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the Policy;
  - (e) proportionality: the link between individual rewards, the delivery of strategy and the long-term performance of the company should be clear. Outcomes should not reward poor performance; and
  - (f) alignment to culture: incentive schemes should drive behaviours consistent with company purpose;
- 8.1.6 develop a formal policy for post-employment shareholding requirements encompassing both vested and unvested shares;
  - 8.1.7 determine the remuneration package, or any changes to the total remuneration package, for the Chair of the Board (if an executive Chair), each executive director and each member of the Executive Management Team. Total remuneration includes any fixed remuneration (e.g. salary, fees, allowances), any variable remuneration (e.g. bonuses, commissions, deferred awards, long-term incentives), pensions, benefits and any perquisites;
  - 8.1.8 in determining such packages, give due consideration to laws, regulations and any guidelines including guidelines published by major institutional investors and their representative bodies regarding the remuneration of senior executives in listed companies;
  - 8.1.9 oversee the operation of the Company's annual bonus plans, deferred bonus plans, and long-term incentive plans (and, in each case, similar plans) as they relate to the Chair of the Board (if an executive Chair), executive directors and members of the Executive Management Team, including the approval of individual awards, setting performance conditions where applicable, and the approval of any vesting, recovery or withholding of awards or the proceeds of awards, as appropriate. In determining individual awards, the Committee should give consideration to the range of potential payouts for different performance outcomes;
  - 8.1.10 approve any bonus (including commission payments) payable to an individual employee that exceeds £500,000;
  - 8.1.11 approve any sign-on payments and any incentive buy-outs, whether made in cash or shares, for any new executive director or member of the Executive Management Team, and for any other employee where the value exceeds 200% of starting salary;
  - 8.1.12 approve any payments or allowances relating to the relocation or expatriate assignment of an executive director or a member of the Executive Management Team;
  - 8.1.13 review the design of, and any changes to, all share plans and/or long term incentive plans that require approval by the Board and/or shareholders, having regard to local laws, regulations and, where appropriate, guidelines published by major institutional investors and their representative bodies within the relevant jurisdictions;
  - 8.1.14 review annually compliance with the overall limits on the issue of the Company's shares for all share plans;
  - 8.1.15 review annually executive directors' shareholdings against any relevant shareholding guidelines;
  - 8.1.16 review any material changes to employee pension and benefit arrangements that affect executive directors or members of the Executive Management Team and with a view to generally ensuring (i) that only basic salary is pensionable and (ii) pension contribution rates for

new executive directors, or payments in lieu, are aligned with those available to the workforce as a whole, unless special circumstances arise;

- 8.1.17 review the terms of any executive service contract (in particular the term and the notice period) and approve any payment (including for loss of office) and benefits due on the termination of an executive director or a member of the Executive Management Team and ensure that any payments that may be made under such provisions do not reward poor performance and that the duty to mitigate loss is fully recognised;
  - 8.1.18 review annually (i) the remuneration and employment policies and practices across the Company, and be aware of these when determining annual salary increases and incentive payments for executive directors and members of the Executive Management Team and (ii) the alignment of workforce remuneration and related policies and workforce incentives and rewards with culture;
  - 8.1.19 agree the policy for authorising claims for expenses from the Chief Executive, other executive directors and the Chair of the Board;
  - 8.1.20 ensure that all provisions regarding the disclosure of remuneration, as set out in Companies Act 2006 (including regulations made thereunder) are fulfilled;
  - 8.1.21 ensure that remuneration schemes promote long term shareholdings by executive directors that support alignment with long term shareholder interests;
  - 8.1.22 ensure that remuneration schemes and policies enable the use of discretion to override formulaic outcomes and that they include provisions that would enable the Company to recover and/or withhold sums or share awards and specify the circumstances in which it would be appropriate to do so;
  - 8.1.23 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
  - 8.1.24 obtain reliable, up-to-date information about remuneration in other companies and best practices. To help fulfil its obligations the Committee shall have full authority to appoint remuneration consultants, commission any reports or surveys which it deems necessary or helpful to fulfil its obligations.
- 8.2 In carrying out its duties under these terms of reference, the Committee shall ensure, where required by law to do so, that any remuneration payment or payment for loss of office to any current or former Chair of the Board or executive director is consistent with the most recent directors' remuneration policy that has been approved by shareholders or if not, that either a revised directors' remuneration policy or the proposed payment is submitted for shareholder approval.
- 8.3 The Committee shall not consider the remuneration of any non-executive director (other than the Chair of the Board) which shall be a matter for the Chair of the Board and executive directors.
- 8.4 No person shall be involved in any decisions about their own remuneration.

## **9 Reporting Responsibilities**

- 9.1 The Committee Chair shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 9.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where consideration, action or improvement is needed.

- 9.3 The Committee shall produce an annual remuneration report for inclusion in the Company's Annual Report. The annual remuneration report will comprise three parts: (a) an annual statement from the Committee Chair; (b) the remuneration policy; and (c) an annual report on remuneration showing how the remuneration policy has been implemented. The Committee will ensure the annual remuneration report is put to shareholders for approval at the AGM every year, and the remuneration policy at least once every three years (or otherwise in accordance with paragraph 8.1.2). If the Committee has appointed remuneration consultants, the remuneration policy should identify such consultants and state whether they have any other connection with the Company or individual directors.
- 9.4 The Committee shall make these terms of reference available on the Company's website.
- 9.5 Through the Chair of the Board, the Committee shall ensure that the Company maintains contact as required with its principal shareholders about remuneration.

## **10 Other**

The Committee shall:

- 10.1 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;
- 10.2 have access to sufficient resources in order to carry out its duties, including access to the Company secretariat for assistance as required;
- 10.3 be provided with appropriate and timely training, both in the form of an induction programme for new members and on-going basis for all members; and
- 10.4 work and liaise as necessary with all other Board committees.

## **11 Authority**

- 11.1 The Committee is authorised by the Board to seek any information it requires from any employee of the Company in order to perform its duties.
- 11.2 In connection with its duties the Committee is authorised by the Board to obtain, at the Company's expense, any outside legal or other professional advice.