

Guidelines on Executive and Director Remuneration

With regards to the recommendations of the Commission of the European Communities and after consultation with its shareholders and major representatives of the Luxembourg business community, also referring to the revised version of the "Ten Principles of Corporate Governance of the Luxembourg Stock Exchange", the Remuneration Committee of Institut Luxembourgeois des Administrateurs suggests to adopt the following guiding principles when defining compensation for executives and non-executive directors of publicly listed companies. All types of companies, listed or non-listed, may consider these guidelines as helpful.

1. The board of directors (supervisory board) should define and implement a comprehensive remuneration policy, in line with the strategic goals and objectives of the company. This remuneration policy should cover all company employees and directors and not be limited to executive or board level.
2. The company should implement a remuneration policy and supervisory structures that provide for a comprehensive and adequate remuneration of its executives and directors promoting the long term sustainability of the company.
3. The board of directors (supervisory board) should determine a remuneration committee that designs an executive compensation plan and submits that plan to the entire board for approval. The remuneration committee should also elaborate remuneration plans for the board of directors.
4. The compensation of executives (management) has to be treated separately from the remuneration of non-executive directors. It is different in nature, namely with regards to risk-taking, relation to company performance and profit-sharing.
5. The remuneration committee should be composed exclusively of non-executive members, and it should be chaired by the Chairman of the Board or an independent director. The remuneration committee should consist of at least three people.

6. At least one member of the remuneration committee should have a proven expertise in the field of executive remuneration, ideally acquired in a senior human resources responsibility, as well as access to relevant technical data and market information needed to establish a remuneration policy in the line with market standards.
7. Given the increasing complexity of incentive and remuneration arrangements, the remuneration committee may seek the support of external remuneration consultants. In doing so, it must pay attention to possible conflicts of interest and concerns as to independence, notably where the consultant is part of a group that has other fee-paying relationships with the entity to which remuneration advice is being provided.
8. In order to provide transparency, the company shall describe its policy for executive and non-executive director remuneration and provide explicit and detailed information of the criteria of performance measurement and related remuneration in its financial reporting (annual report).
9. It is recommended that the remuneration policy of the company is reviewed on an annual basis.
10. Form, structure and level of remuneration of executives and directors should primarily fall within the competence of the company and its shareholders.
11. It is strongly recommended to establish an adequate balance between fixed and variable remuneration, covering all elements of remuneration such as share options shares, directors' fees, retirement and departure conditions and specific benefits.
12. Variable components of remuneration should be linked to predetermined and measurable performance criteria, including non-financial criteria. These criteria should be in line with the medium and long-term objectives of the company and take into account its effective and potential development, the wealth created for the company and its shareholders and the individual and collective performances of the board or the executive management respectively. The criteria should also take into consideration the appropriate level of risk defined by the board.

13. Where a variable component of remuneration is awarded, the company should consider deferring for a minimum period (e.g. vesting over three years) a major part of the variable component related to individual performance.
14. Companies that award variable remuneration based on performance criteria should be entitled to apply “clawback” clauses that will permit them to reclaim variable components of remuneration directly related to individual performance in circumstances of misstatement or misconduct.
15. Executives and non-executive directors shall not be rewarded for failure. Thus, in particular, severance payments, “parachutes” clauses and other guaranteed payments not related to performance should be limited to a certain amount or duration beforehand, in general not exceeding two years of global remuneration. This should be taken into account when contractual arrangements are designed and negotiated.
16. The remuneration of non-executive directors should be proportional to their responsibilities and the time devoted to their functions. Non-executive directors should neither receive remuneration linked to their individual performance, nor bonuses, long-term incentive plans, benefits in kind or benefits linked to pension plans.

In addition to the above-mentioned general recommendations, the Remuneration Committee of Institut Luxembourgeois des Administrateurs refers to the specific guidelines outlined in CSSF Circular 10/437 with regards to the remuneration policy of financial undertakings.