

# TERMS OF REFERENCE

## REMUNERATION COMMITTEE

### GENERAL

1. The role of the Remuneration Committee (the 'Committee') is to assist the Board in exercising its authority in relation to the matters set out in these Terms of Reference<sup>1</sup>. The Committee is accountable to the Board for its performance.
2. The purpose of all Committee work is derived from the Board's task to monitor the decisions and actions of the Chief Executive Officer (CEO) and the Group, and to gain assurance that progress is being made towards the Corporate Objective<sup>2</sup> within the spirit of the CEO Limits<sup>3</sup>.
3. The Board has defined the Committee's purpose as assisting the Board in its oversight of:
  - The remuneration policy and its specific application to the CEO, the executive directors and executives reporting to the CEO (the CEO's direct reports), and its general application to all Group employees.
  - The adoption of annual and longer-term incentive plans
  - The determination of levels of reward to the CEO and approval of reward to the CEO's direct reports.
  - The annual evaluation of the performance of the CEO, by giving guidance to the Group Chairman.
  - The communication to shareholders on remuneration policy and the Committee's work on behalf of the Board.
  - The Group's compliance with applicable legal and regulatory requirements associated with remuneration matters.
  - The preparation of the Remuneration Report to be included in the Group's annual report.
4. The Committee will seek assurance that the applicable limits imposed on the CEO in the Board Governance Document (BGD) in relation to remuneration matters have been complied with.

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<sup>1</sup> Clause 31 of the Board Governance Document (BGD).

<sup>2</sup> The 'Corporate Objective' of BHP Billiton is to create long term value for shareholders through the discovery, development and conversion of natural resources, and the provision of innovative customer and market-focused solutions.

<sup>3</sup> The role of the BHP Billiton Board is to represent the shareholders and to promote and protect the interests of the Group. The Board has developed processes relating to the boundaries on CEO action (CEO Limits), which are set out in the BGD.

5. The Committee's work is supported by the CEO and his nominees, principally the Chief People Officer. Under the BGD the CEO commits to supply the Committee with information in a form that is appropriate to enable it to make assessments and judgments, to conduct inquiries, and to gain assurance that the decisions and actions of the CEO, and the performance of the Group, are directed toward the Corporate Objective<sup>4</sup>, and the fulfillment of the Committee's purposes specified in clauses 2 and 3.
6. Any person may be invited to attend meetings of the Committee, but not necessarily for the full duration of the meeting. The Committee Chairman may invite the following to attend for all or part of any meeting as and when appropriate:
  - the Group Chairman
  - the CEO; and
  - the Chief People Officer.A standing invitation will be issued to all Non-executive Directors to attend.
7. These terms of reference record how the Committee will undertake its work.
8. Many of the principles and procedures recorded in these terms of reference are expressed in a flexible and non-exhaustive manner. The Board and Committee believe that having regard to the time and resources available to the Committee it is appropriate and necessary to adopt such an approach to respond to changing business circumstances and the needs of shareholders and external regulatory developments.

## REMUNERATION POLICY

9. The Committee will determine and agree with the Board the policy for the remuneration of the Group Chairman, the CEO, the executive directors and the CEO's direct reports. No director or executive shall be involved in any decisions as to their own remuneration.
10. In determining the policy, the Committee will take into account all factors which it deems necessary. The objective of the policy will be to:
  - provide competitive rewards to attract, motivate and retain highly skilled executives willing to work around the world;
  - apply demanding key performance indicators (KPIs) including financial and non-financial measures of performance;
  - link rewards to the creation of value to shareholders;
  - ensure remuneration arrangements are equitable and facilitate the deployment of human resources around the Group; and
  - limit severance payments on termination to pre-established contractual arrangements that do not commit the Group to making unjustified payments in the event of non-performance.
11. The Committee will review the ongoing appropriateness and relevance of the remuneration policy.

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<sup>4</sup> *Clause 51 of the BGD.*

## REMUNERATION OF GROUP CHAIRMAN AND NON-EXECUTIVE DIRECTORS

12. The Committee will consider and make recommendations to the Group Boards on the remuneration for the Group Chairman each year.
13. The remuneration of non-executive directors shall be a matter for the Group Chairman and the executive directors and will be reviewed each year.

## REMUNERATION OF THE CEO

14. The Committee will:
  - a) In consultation with the Group Chairman, determine the remuneration for the CEO on appointment, having regard to the remuneration policy.
  - b) Recommend to the Board for its approval, appropriate KPI's for the CEO at the beginning of each Financial Year; and
  - c) At the end of each Financial Year, recommend to the Board for its approval, performance levels for the CEO against the KPI's set at the beginning of the year.

## REMUNERATION OF THE EXECUTIVE DIRECTORS

15. The Committee will:
  - a) In consultation with the CEO, determine the remuneration for the executive directors, on appointment, having regard to the remuneration policy;
  - b) Recommend to the Board for its noting, appropriate KPI's for the executive directors at the beginning of each Financial Year; and
  - c) At the end of each Financial Year, recommend to the Board for its noting, performance levels for the executive directors against the KPI's set at the beginning of the year.

## REMUNERATION OF THE CEO'S DIRECT REPORTS

16. The Committee will:
  - a) In consultation with the CEO, determine the remuneration for the CEO's direct reports, on appointment, having regard to the remuneration policy;
  - b) Recommend to the Board for its noting, appropriate KPI's for the CEO's direct reports at the beginning of each Financial Year; and
  - c) At the end of each Financial Year, recommend to the Board for its noting, performance levels for the CEO's direct reports against the KPI's set at the beginning of the year.

## REMUNERATION – GENERAL

17. The Committee must approve, prior to implementation, changes to the remuneration or contract terms of the CEO, the executive directors and the CEO's direct reports.
18. The Committee will advise the Group Boards as to the shareholder approvals required in respect of all elements of remuneration.
19. In determining remuneration packages and arrangements, the Committee will give due regard to any relevant legal requirements, the provisions and recommendations in the UK Combined Code, the UK Listing Authority's Listing Rules and associated guidance, the Australian Stock Exchange's Listing Rules and Principles of Good Corporate Governance.

20. The Committee will review and note annually the remuneration trends across the Group and in particular, compare the trends in base pay for senior management to that of all Group employees.
21. The Committee will oversee any major changes in employee benefits structures throughout the Group.
22. The Committee will agree the policy for authorising claims for expenses from the Group Chairman, the non-executive directors and the CEO.

### **TERMINATION PAYMENTS**

23. The Committee will review termination payments for the CEO, the executive directors and the CEO's direct reports to ensure they are consistent with the rules of any incentive scheme and the policy, and that any payments made are fair to the individual, and the Group, and that failure is not rewarded and that the duty to mitigate loss is fully recognised.
24. The Committee must approve, prior to implementation, termination arrangements for executive directors. Termination payments to the CEO's direct reports should be reported to the Committee at its next meeting.

### **INCENTIVE PLANS**

25. The Committee will review and make recommendations to the Board in relation to those executive incentive plans that require the approval of shareholders. In making those recommendations the Committee will have regard to the remuneration policy and to the total cost of each plan.
26. The Committee will:
  - approve (within the scope approved by shareholders) the rules of all incentive plans (including the delegation of powers, as appropriate, to management to operate those plans);
  - keep all plans under review in the light of legislative, regulatory and market developments;
  - for each plan, determine each year whether awards will be made under that plan;
  - review and approve total proposed awards under each plan;
  - recommend to the Board awards under each plan to the CEO and executive directors;
  - review and endorse awards under each plan (as recommended by the CEO) to the CEO's direct reports;
  - review and approve proposed awards under each plan on an individual basis for executives as required under the rules governing each plan or as determined by the Committee; and
  - review, approve and constantly keep under review the performance targets to be used and the performance of each incentive plan.

### **PENSIONS/SUPERANNUATION**

27. Determine the policy for, and scope of, pension or superannuation arrangements for the CEO, each executive director and the CEO's direct reports.

### **ANNUAL REMUNERATION REPORT**

28. The Committee will approve an annual remuneration report and make recommendations to the Board for the inclusion of the Remuneration Report in the Company's annual report. The Remuneration Report will contain information on the Company's remuneration policy, practices, attendance at and frequency of Remuneration Committee.

29. The Company Secretary will design, maintain and evaluate policies, procedures, internal controls and verification processes in order to satisfy the objective of safeguarding the integrity of the Group's annual Remuneration Report in accordance with best practice, as determined by the Committee, and to meet provisions of the relevant legislation regarding disclosure of remuneration practices in the core areas where the Committee focuses its work.

## **ANNUAL GENERAL MEETING**

30. The Committee Chairman will attend the Annual General Meeting and be prepared to respond to any shareholder questions on the Committee's activities.

## **MEMBERSHIP**

31. The Committee will consist of at least three independent non-executive directors<sup>5</sup> as determined by the Board in accordance with its Policy on Independence of Directors.
32. Members will be proposed by the Group Chairman and approved by the Board. Membership shall be reviewed every three years, or earlier if circumstances dictate. In proposing new members, the Group Chairman will strive to ensure there is periodic rotation of the members appointed.

## **BOARD COMMITTEE MEETING PROCEDURES**

33. The Company Secretary, or a designate, shall be the Secretary of the Committee.
34. The Committee of the Board of BHP Billiton Limited is established under Rule 101 of the Constitution of that Company (the Constitution) and the Committee of the Board of BHP Billiton Plc is established under Article 101 of the Articles of Association of that Company (the Articles).
35. Proceedings and meetings of the Committee will be governed by the provisions of the Constitution and the Articles for regulating the meetings and proceedings of the Boards of BHP Billiton Limited and BHP Billiton Plc (the Group Boards) in so far as they are applicable and not inconsistent with these terms of reference.
36. The Committee is authorised by the Group Boards to investigate any activity within its terms of reference. The Committee is a non-executive Committee and is tasked with recommending to the Group Boards appropriate actions emanating from these investigations. The Committee shall have unrestricted access to personnel, records and senior management as appropriate. The Committee is authorised by the Group Boards to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary, the cost of such advisers to be borne by the Group.
37. The Committee Chairman will report to the Board, including recommendations on any specific decisions or actions the Board should consider.
38. The Committee will meet as frequently as required but not less than four times a year.
39. Any Committee member or the Secretary may call a meeting of the Committee or may request a member to call a meeting.
40. A notice of each meeting confirming the date, time, venue and agenda shall be forwarded to each member of the Committee (with a copy to all Board Members) in the week prior to the date of the meeting. The notice for members will include relevant supporting papers for the agenda items to be discussed.
41. The Committee will appoint and instruct expert advisers who will be advisers solely to the Committee. They shall not receive a standing invitation to attend meetings.
42. The Committee Chairman, or a delegate, shall report to the Group Boards following each meeting.

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<sup>5</sup> Clause 33 of BGD.

43. Minutes of proceedings and resolutions of Committee meetings shall be kept by the Secretary. Minutes shall be distributed to all Committee members and other Directors after the preliminary approval has been given by the Committee Chairman. Notices, minutes, agenda and supporting papers will be posted to a website accessible by directors and copies will be made available to any Director upon request to the Secretary. Committee papers prepared by management are to be relevant, clear, complete and concise.
44. At the discretion of the Committee Chairman, separate meetings may also be held with any member of Group management.
45. A quorum will comprise any two Committee members. In the absence of the Committee Chairman or an appointed delegate, the members shall elect one of their number as Chairman for that meeting.
46. The Committee Chairman shall not have a second or casting vote.
47. 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.
48. The Committee will have available to it sufficient resources, as determined by the Committee, to run effectively including funds to:
  - remunerate independent advisory services of experts to assist it in carrying out its work under these terms of reference.
  - pay any administrative expenses of the Committee that are necessary or appropriate to assist it in carrying out its work under these terms of reference.
49. The Committee will determine the compensation payable to independent advisers, and the Company Secretary will assist the Committee in securing the service determined necessary.
50. Each member of the Committee, with the consent of the Committee Chairman and the assistance of the Company Secretary, may seek independent professional advice at the expense of the Group on any matter connected with the discharge of his or her responsibilities. The consent of the Chairman will not be unreasonably withheld.
51. The Committee will assess its performance each year having regard to the principles and requirements of its terms of reference and the overall objective of the Committee's work to gain assurance that the decisions and actions taken by the CEO and the Group progress toward the Corporate Objective.
52. Members of the Committee will undergo ongoing training and professional development as provided by the programme developed for the Board as a whole or on a one-to-one basis as required.
53. The Committee will ensure that the results of assessments of its effectiveness and changes to its terms of reference are reported by the Board to shareholders.