

Bonus Proposals

Remuneration Committee

23 September 2009

Background and Content

- Bonus arrangements are sensitive, internally and externally.
- Bonus arrangements look high (when taken out of context of total reward)
- No clear linkage between bonus payments and corporate performance...linked to individual performance only.
- Inadequate performance management processes to underpin/justify payments.

Current Arrangements

- X2 levels of bonus
 - 50% max for executive team
 - 25% max for other employees
 - Both based on personal rather than corporate achievement.

Proposed Arrangements

- Philosophy
 - Put significant levels of reward at risk in context of cost and project timetable.
 - Align variable reward with stakeholder interests.
 - Common features between both plans going forward to ensure vertical alignment.

Scheme 1

- Senior Executives
 - Covers CEO and executive team.
 - Maximum bonus 50% of salary.
 - 35% cost
 - 35% timetable
 - 15% KPIs
 - 15% individual performance

Scheme 1

- “Total Life of Project” Plan
 - Pays out post ORS upon RemCo approval therefore no payment between now and successful completion of project.
 - Payment based on cumulative salary from “start date” to “payment date”.
 - Bonus forfeit if minimum cost or timetable requirements are missed.
 - Should targets need to be reset then opportunity for terminal bonus is reduced in proportion.

Scheme 1

- Each Senior Manager has corporate targets
- | | <u>Weighting</u> |
|--------------------------------|------------------|
| ➤ Cost Targets(see Appendix 1) | 35% |
| ➤ Timetable(see Appendix 1) | 35% |
| ➤ KPI's * | 15% |
| ➤ Up to 4 Personal Objectives | 15% |
- Payment to the individual will be;
Cumulative salary at Payment Date x 50% x
weighted cost,time,KPI and personal objectives=bonus

*Safety,Stakeholder Support,Team Culture and Operational Readiness

Scheme 2

- For all other employees
- Annual bonus scheme with element of deferral
 - 60% paid at end of year earned
 - 40% paid post ORS upon RemCo approval

ie a maximum of 15% of salary at the end of the relevant financial year and a maximum of 10% of cumulative salary at payment date.

Scheme 2

- Annual Award
- At financial year end, each employee is assessed against 3 personal objectives (PPS)
- RemCo will be asked to take a view on
 - progress v cost
 - progress v timetable
 - progress v KPIs (ACPS)
- Payment made to the individual will be;
salary x 15% x PPS x ACPS = annual element

Scheme 2

- Deferred Award
 - No payment if cost or timetable targets are missed.
 - Award calculated on cumulative salary from start of scheme to payment date.
 - Calculation requires Combined Performance Score (Average Performance Score, KPI achievement at ORS, cost and timetable achievement at ORS)
 - Payment to the individual will be;
cumulative salary at payment date x 10% X CPS =
project completion element .

Conclusion

We believe that;

- The new scheme provides a clear line of sight between reward and achievement.
- The new scheme provides a far better balance between individual contribution and collective success.
- Employees at all levels will be encouraged to focus upon that which is important to our stakeholders, ie delivering a great tram system within agreed cost and on time.

We invite the Committees agreement and support