

**TERMS OF REFERENCE
OF THE REMUNERATION COMMITTEE**

1. MEMBERSHIP

The Chairman and all independent non-executive members of the Board will be members of the Committee. As a general rule the Committee will invite the Chief Executive and Group Human Resources Director to attend all the Committee Meetings to consult upon their proposals relating to the remuneration of other executive directors and senior executives.

The Board will appoint the Chairman of the Committee. However, unless otherwise decided by the Board the senior independent non-executive director from time to time will be the Chairman of the Committee.

The Company Secretary, or any other person nominated by the Committee, shall act as Secretary of the Committee.

Meetings of the Committee may be held by telephone or video conference facility.

2. QUORUM

Two members of the Committee shall constitute a quorum.

3. MEETINGS

3.1 The Committee shall meet in accordance with the annual cycle of meetings attached and marked Appendix 1 as may be amended by the Committee from time to time and at such other times as the Chairman of the Committee shall require.

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

4. DUTIES

The Remuneration Committee shall:-

4.1 Determine the Company's policy on executive remuneration and within the terms of agreed policy, set specific remuneration packages for each of the Executive Directors and other senior executives and the Company Secretary, including where appropriate bonuses, performance related benefits, incentive payments, share options, pension arrangements and any compensation payments on termination.

4.2 Ensure that the Company's directors and senior executives are provided with appropriate incentives to encourage enhanced

performance and are fairly rewarded for their individual contributions to the Company's overall performance.

- 4.3 Demonstrate that the remuneration of the senior executives of the Company is set by a committee of board members who have no personal interest in the outcome of their decisions and give due regard to the interests of the shareholders and to the financial and commercial health of the Company.

5. **POWER TO TAKE ADVICE**

The Committee shall consult the Chief Executive and Group Human Resources Director about the Committee's proposals and shall take such external advice as it shall consider appropriate to determine the remuneration, terms of service and incentives of the senior executives of all parts of the Avon Group. For this purpose the senior executives of the Group shall be deemed to include all executive members of the Board together with such executives in the Group as the Board shall consider appropriate.

6. **TERMINATION ISSUES**

It shall be part of the Committee's remit to determine the basis on which the employment of executive members of the Board and senior executives is terminated and to ensure that contractual terms on termination and any payments made are fair to the individual and the Company, that poor performance is not rewarded and that the duty to mitigate is recognised.

7. **EXECUTIVE SHARE OPTION SCHEME 1986 ("THE 1986 SCHEME") AND THE EXECUTIVE SHARE INCENTIVE SCHEME 1996 ("THE 1996 SCHEME")**

The Committee shall remain responsible for all matters remaining to be decided by it under the 1986 Scheme and the 1996 Scheme including, without limitation, decisions regarding the exercise of options by optionholders under the 1986 Scheme and awards to Directors and senior employees under the 1996 Scheme.

8. **ANNUAL EXECUTIVE BONUS SCHEME ("ANNUAL SCHEME")**

The Committee shall be responsible for devising, reviewing and amending, after consultation with the Chief Executive and the Group Human Resources Director, any Annual Scheme for Executive Directors and other senior executives.

9. **PERFORMANCE SHARE PLAN 2002 ("THE 2002 SCHEME")**

The Committee shall be responsible for and shall ensure at its discretion the operation of the 2002 Scheme in accordance with the rules including as to the selection of participating employees and for the grant of options or conditional awards of shares under the 2002 Scheme.

10. **NON-APPLICATION TO NON-EXECUTIVE REMUNERATION**

The Committee shall have no authority in relation to the remuneration of the Chairman and non-executive members of the Board, which shall be a matter for the whole Board excluding the director(s) interested at the time of review. No director shall be involved in any decisions as to their own remuneration.

11. **REPORT TO SHAREHOLDERS**

The Committee will prepare, on behalf of the Board, a report to shareholders containing the particulars required by the Listing Rules and the Combined Code. The Chairman of the Committee, or in exceptional circumstances another member, will attend the Annual General Meeting to answer shareholders' questions about Directors' remuneration.

12. **ADDITIONAL DUTIES**

The Committee shall:-

- 12.1 agree the policy for authorising claims for expenses from the Chief Executive and, without his participation, the Chairman;
- 12.2 be aware of remuneration trends across the Group and consider any proposals for major changes in employee benefit structures throughout the Avon Group;
- 12.3 be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Committee;
- 12.4 report the frequency of, and attendance by members at, Remuneration Committee meetings in the annual report of the Company;
- 12.5 ensure that provisions regarding disclosure of remuneration, including pensions, as set out in the Directors' Remuneration Report Regulations 2002 (as amended from time to time) and the Combined Code are fulfilled;
- 12.6 make available these Terms of Reference to shareholders through the Company Secretary; and
- 12.7 give due regard to the Code of Best Practice provisions set out in the Combined Code as well as the Listing Rules and associated guidance.

13. **DEFINITIONS**

- 13.1 "Combined Code" means the Combined Code on Corporate Governance as may be amended from time to time.
- 13.2 "Listing Rules" means the Listing Rules of the UK Listing Authority.

**Approved September 2004
Reviewed October 2006**

Appendix 1

Annual cycle of Remuneration Committee matters

October

- PSP - tracking as at year end for the 3 current cycles
- PSP - confirmation and provisional sign-off to executives grants for new financial year cycle
- Annual Report - first draft & outline of the Directors remuneration report

November

- PSP - actual performance, vesting and award for end of elapsed cycle (payable in January)
- Annual Bonus - confirmation of annual bonus awards to executives for financial year just ended (payable in December)
- Remuneration - annual review of the executive directors' and other executives' remuneration and other benefits (effective 1st January)
- Annual Report - sign off to the Directors remuneration report

April

- PSP - half year review of the PSP tracking on the 3 current cycles
- Succession Planning - review of HRD report on succession planning covering all grade 4 managers and above
- Annual bonus - half year up-date on annual bonus performance

September

- PSP - forecasted allocation and executive eligibility for the oncoming financial year cycle
- Annual bonus - review of the bonus targets and % awards for the oncoming financial year