



# Directors' Remuneration Report: **Part 1**

# Directors' Remuneration Report

## Part 1 Policy report

This part of the DRR contains the directors' remuneration policy. This policy was approved by shareholders on 14 May 2014 at the 2014 AGM and took effect from that date.

### 1.1 Future policy

The tables below summarise the remuneration policy in relation to executive and non-executive directors.

<b>Future remuneration policy for executive directors</b>		
<b>Element</b>	<b>Purpose and link to strategic objectives of the Group</b>	<b>Remuneration Policy details</b>
<b>Salary</b>	To provide an appropriate level of fixed salary to attract and retain individuals with the qualities, skills and experience required to deliver our short and long-term strategic objectives.	<p><b>Operation</b></p> <p>Typically reviewed annually by the Committee, with any changes approved and effective from 1 January (although the Committee may make changes effective from any other date if it considers it appropriate).</p> <p>Consideration is given to:</p> <ul style="list-style-type: none"> <li>the scale, scope and responsibility of the individual executive's role including any changes in responsibility;</li> <li>the skills, experience and performance of the individual;</li> <li>the salary of individuals undertaking similar roles in companies of comparable size and complexity;</li> <li>business performance and the wider market and economic conditions; and</li> <li>the range of salary increases applying across the Group.</li> </ul> <p>Having considered these items, the Committee determines appropriate levels of base salary. Executive directors based in the US are paid locally in US dollars.</p> <p><b>Maximum opportunity</b></p> <p>There is no prescribed maximum salary. Annual increases will normally be in line with comparable increases across the Group.</p> <p>Higher increases may be awarded, at the Remuneration Committee's discretion in certain circumstances. For example, this may include:</p> <p>significant increase in the scope and/or responsibility of the individual's role; or</p> <p>development of the individual within the role.</p> <p>In addition, where an executive director has been appointed to the Board at a low starting salary, larger increases may be awarded to move them closer to salaries paid to individuals undertaking similar roles in companies of comparable size and complexity or other executive directors as their experience develops.</p> <p><b>Performance metrics</b></p> <p>None</p>



## Future remuneration policy for executive directors

Element	Purpose and link to strategic objectives of the Group	Remuneration Policy details
<b>Benefits</b>	To provide market competitive benefits to attract and retain individuals with the qualities, skills and experience required to deliver our strategic objectives.	<p><b>Operation</b></p> <p>Benefits provided include car or car allowance, private medical insurance (or contributory health and welfare cover for US based executive directors), dental insurance and permanent health insurance. The types of benefits provided are reviewed from time to time and may be adjusted by the Committee if deemed appropriate to ensure on-going competitiveness.</p> <p>Where executive directors are required to relocate or complete an international assignment due to business requirements, additional benefits such as relocation assistance or other expatriate benefits may be offered, if considered appropriate. Benefits may also be varied according to local practice.</p> <p><b>Maximum opportunity</b></p> <p>Given the complexity of assessing the future monetary cost of some benefits, the Committee has not set an absolute limit on the value of benefits delivered but aims to ensure that the level of benefits provided remains, in its opinion, appropriate.</p> <p><b>Performance metrics</b></p> <p>None. Benefits are not performance related.</p>
<b>Bonus</b>	To incentivise executives to deliver strategic business priorities for the financial year with deferred payment designed to provide additional alignment with shareholders and reinforce retention.	<p><b>Operation</b></p> <p>Bonuses are awarded annually based on performance in the relevant financial year. The performance measures which apply to the bonus plan are chosen by the Committee at the start of the year to ensure the Company is focused on its strategic objectives. The Committee sets threshold, target and stretch objectives for each of the financial measures and determines the appropriate weighting for each. Stretch objectives are also set in relation to the non-financial element of the plan. At the end of the year, the Committee reviews actual performance against the relevant measures. This outcome is then considered by the Committee in the context of underlying business performance. The Committee is able to adjust the outcome at its discretion to ensure it is fair and appropriate, taking into account the overall performance of the Company. Where discretion is, or has been, used, this will be disclosed in the following year's DRR as appropriate.</p> <p>At least half the value of any bonus earned is subject to automatic deferral for a further period of at least two years and, subject to legal restrictions or adverse tax consequences in foreign jurisdictions, will be awarded as shares.</p> <p>Dividend equivalent payments will be accrued on the shares comprising the deferred bonus award prior to vesting and will be paid out proportionately with the award (also in shares). The vesting of any deferred bonus may be reduced or cancelled at the absolute discretion of the Committee. Such circumstances include a material misstatement of the financial results of the Company or any business unit; a material failure of risk management by the Company or a relevant business unit; a serious breach of health and safety standards; serious reputational damage to the Company or a relevant business unit; or serious misconduct or fraud by the executive.</p> <p><b>Maximum opportunity</b></p> <p>The maximum opportunity will not exceed 200% of base salary in respect of any financial year.</p> <p><b>Performance metrics</b></p> <p>At least 50% of the maximum potential bonus is based on financial measures with the remainder being based on non-financial measures. The balance between financial and non-financial measures is reviewed annually and may be adjusted by the Committee if deemed appropriate to ensure alignment with overall Group objectives. Non-financial objectives are measured annually against agreed team and/or personal objectives and associated targets which are aimed at achieving business goals in line with the Group's Core Values. Typically, these will include objectives linked to safety, risk management, business development, strategy, process improvements, working capital control and people development.</p>

**Future remuneration policy for executive directors**

Element	Purpose and link to strategic objectives of the Group	Remuneration Policy details
<b>Long-term incentives – the LTP</b>	<p>To reward and retain executives while aligning their interests with those of shareholders by incentivising performance over the longer term. Performance measures are linked to longer-term creation of shareholder value.</p>	<p><b>Operation</b></p> <p>The LTP is the Group's current long-term incentive plan for senior executives including executive directors and is based on a rolling performance cycle of at least three years. Executive directors may be granted conditional share awards or nil cost options over shares in the Company at the start of the cycle (or in the case of a new appointment, at the earliest opportunity deemed appropriate by the Committee). Awards may also be settled in cash.</p> <p>Performance is measured over a period of at least three financial years. Up to 80% of an award may vest on the Committee's determination of the Group's performance over that period.</p> <p>Unless the Committee determines otherwise, to aid retention, the vesting of at least 20% of any award is normally deferred for a further period of at least two years (or such other period to be determined by the Committee) after the Committee's determination of Group performance. The number of shares subject to award will, unless the Committee determines otherwise, be increased to reflect the value of dividends that would have been paid on the award shares that vest between grant and vesting, assuming reinvestment of the dividends in shares on a simple basis. For nil-cost options, no shares will be awarded in lieu of dividends post-vesting (i.e. between vesting and exercise). The Committee reviews actual outcomes in the context of underlying business performance with the Committee able to adjust the outcome at its discretion and may, in its absolute discretion, choose to reduce or cancel unvested awards or impose further conditions on them. Such circumstances include: a material misstatement of the financial results of the Company or any business unit; a material failure of risk management by the Group or a relevant business unit; a serious breach of health and safety standards; or serious misconduct or fraud by the executive.</p> <p>Awards may be amended a) in the event of any variation of share capital, demerger, delisting, special dividend rights issue or other event which may affect the current or future value and b) in accordance with the rules approved by shareholders in 2013.</p> <p><b>Maximum opportunity</b></p> <p>The maximum opportunity does not normally exceed 200% of base salary in respect of any financial year of the Company (with the Committee having the discretion to award up to 250% of base salary in exceptional circumstances).</p> <p>Where salary is materially amended during the performance period, the Committee may adjust the number of shares under award to reflect the salary change.</p> <p><b>Performance metrics</b></p> <p>Awards made to the executive directors vest based on performance against a combination of performance measures. At least 25% of the award will be based on TSR and a portion of the remainder will be based on financial measures.</p> <p>During the course of a performance cycle, the Committee has the discretion to adjust the performance targets when it considers an amended target would be more appropriate and not materially easier to satisfy.</p> <p>For 'threshold' levels of performance, no more than 25% of the award vests, increasing on a straight line basis to 100% of the award for maximum performance.</p>
<b>Pension related benefits</b>	<p>To aid attraction and retention of individuals with the qualities, skills and experience required to deliver our short- and long-term strategic objectives, allowing such executives to provide for their retirement.</p>	<p><b>Operation</b></p> <p>New executive directors can choose to participate in the relevant local defined contribution pension arrangement or receive a cash allowance in lieu of pension (or a combination thereof). Payment may be up to 15% of salary, with Company contributions to the relevant local defined contribution pension arrangement being restricted to the limit for tax relief in place at the time.</p> <p>Life assurance cover of up to four times base salary (and 8 times up to a maximum of £2,500,000 for the CEO) is also provided.</p> <p>The level of pension provided and the associated level of life assurance cover are reviewed from time to time and may be adjusted by the Committee if deemed appropriate to ensure on-going competitiveness.</p> <p><b>Maximum opportunity</b></p> <p>For new executive directors, a maximum payment of up to 15% of base salary with life assurance cover of up to four times base salary capped at £1,500,000. For existing executive directors, maintenance of existing arrangements.</p> <p><b>Performance metrics</b></p> <p>Not performance related.</p>



## Future remuneration policy for executive directors

Element	Purpose and link to strategic objectives of the Group	Remuneration Policy details
<b>Legacy plans</b>		
<b>Long-term incentives</b>	To reward and retain executives for the longer term whilst incentivising performance and aligning their interests with those of shareholders. Performance measures linked to long-term strategy of the Group and longer-term creation of shareholder value.	<b>Historical plan – Long-term Incentive Plan (LTIP)</b>
		<b>Operation</b>
		No further awards will be made under this plan.
		The LTIP was based on three-year rolling performance cycles. The 2011 – 2013 and the 2012 – 2014 cycles have deferred elements payable in 2016 and 2017 respectively.
		Each cycle awarded executive directors a combination of shares and restricted shares up to a maximum of 125% of their base salary at the start of the cycle. The number of shares awarded was calculated using the average share price in the period prior to the start of the cycle and, for non-UK employees, the applicable exchange rate.
		Performance is measured over a period of at least three financial years with one-third of the award vesting at threshold performance. 20% of any award subsequently earned is made in forfeitable restricted shares and deferred for two years after vesting to aid retention, with dividends accruing during this additional holding period.
		The Committee may, in its absolute discretion, choose to reduce or cancel unpaid or unvested awards or impose further conditions. Such circumstances include a material misstatement of the financial results of the Company or any business unit; a material failure of risk management by the Company, any Group member or a relevant business unit; a serious breach of health and safety standards; or serious reputational damage to the Company, any Group member or a relevant business unit as a result of serious misconduct or fraud by the Participant.
		<b>Maximum opportunity</b>
		A maximum annual opportunity of 125% of base salary.
		<b>Performance metrics</b>
Awards made under the previous LTIP plan to the CEO and the CFO were based on TSR and AEPS (weighted 25% and 75% respectively). Divisional directors were also measured on Divisional EBITA, the split of measurement being TSR 25%, AEPS 37.5% and Divisional EBITA 37.5%.		
	<b>Historical plan – Long-term Retention Plan (LTRP)</b>	
	<b>Operation</b>	
	No further awards will be made under this plan and existing awards will vest in the ordinary course. The basis of the LTRP is that a bonus pool is generated annually based on the growth of the Group's AEPS in the previous year. Awards under the LTRP are made wholly in the form of par value share options at a price of 4.286 pence per share. There is a four year vesting period before options can be exercised.	
	<b>Maximum opportunity</b>	
	A maximum annual opportunity of 50% of base salary.	
	<b>Performance metrics</b>	
	Not performance related.	

### Notes to the policy report for executive directors

In drafting this section of the DRR the Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed (i) before the policy came into effect or (ii) at a time when the relevant individual was not a director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a director of the Company. For these purposes "payments" includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are deemed to be agreed at the time the award is granted.

The performance metrics for those elements of variable remuneration which are subject to performance measures are chosen in light of their appropriateness to the objectives of the Group, and the Committee sets targets against these measures at the commencement of each performance cycle. During the course of a performance cycle, the Committee has the discretion to adjust the achievement levels required, but only so that the new levels are considered as demanding as those first set.

The bonus performance measures are chosen by the Committee at the start of the year to ensure the Group is focused on its strategic objectives, providing an appropriate balance between incentivising executives to meet financial targets for the year and to deliver specific business goals in line with the Group's Core Values.

The Committee considers that strong performance under the LTP's performance measures should result in sustainable value creation over the longer-term, which is the ultimate goal of our strategy.

**Remuneration arrangements throughout the Group**

- The remuneration policy for executive directors is designed in line with the remuneration philosophy and principles that underpin remuneration policy throughout the Group
- The Group aims to provide employees with remuneration packages that are market competitive within each employee's country of employment. Where appropriate, employees participate in the annual bonus and LTP arrangements, with their threshold, target and maximum levels of participation being set by reference to their position in the organisation and the local market in which they are employed
- The remuneration policy for executive directors is more heavily weighted towards variable pay and long-term incentives than in the Group's workforce more generally. The Committee considers this appropriate to ensure greater alignment between the reward arrangements of executive directors and the delivery of sustained results to shareholders

**Future remuneration policy for non-executive directors and Chairman**

Element	Purpose and link to short- and long-term strategic objectives of the Group	Remuneration Policy details
Fees and remuneration	To attract and retain individuals with the qualities, skills and experience required to provide a positive contribution to the Board.	<p><b>Operation</b></p> <p>The Chairman receives an all-inclusive remuneration payment which is reviewed annually by the Committee, with changes ordinarily effective from 1 January.</p> <p>The fees for the non-executive directors are generally reviewed annually by the Board with increases effective from 1 January if applicable.</p> <p>Fee levels are typically set taking into account:</p> <ul style="list-style-type: none"> <li>• the expected commitment levels and the skills and experience of the individual</li> <li>• the fee levels paid to individuals undertaking similar roles in companies of comparable size and complexity</li> </ul> <p>Non-executive directors can elect to be paid in either pounds sterling or in US dollars at the applicable exchange rate at the time of payment. Payments may be made in the form of either cash or shares.</p> <p><b>Maximum opportunity</b></p> <p>No prescribed maximum for directors' fees or chairman's remuneration although an aggregate maximum for directors fees of £500,000 is included in the Articles of Association.</p> <p>Fees are set by the Board at a level considered appropriate to attract and retain the calibre of individual required but avoiding paying more than necessary for this purpose. Fee increases may be made if considered appropriate in line with market movements.</p> <p>Non-executive directors receive a base fee in relation to their role. Additional fees may be paid for related duties including the senior independent directorship and for chairing, membership and attendance of certain Board Committees.</p> <p><b>Performance metrics</b></p> <p>Not performance related.</p>

**Notes to the future remuneration policy for non-executive directors**

Non-executive directors are reimbursed all necessary and reasonable expenses incurred in the performance of their duties.



## 1.2 Approach to recruitment remuneration

The Committee's approach where the Group appoints a new executive or non-executive director is typically to align the remuneration package with the terms of the remuneration policy laid out in the relevant tables in section 1.1 of this report.

In the event of internal promotion to the Board any commitments made before promotion will continue to be honoured under this policy even if they would not otherwise be consistent with the policy prevailing when the commitment is fulfilled.

As far as possible, the Committee will seek to structure all awards in line with the stated remuneration policy. The Committee retains the discretion to deviate from the stated remuneration policy to ensure the hiring of candidates of the appropriate calibre. For example, the Committee may provide additional remuneration arrangements (which may include additional benefits), if considered appropriate and with due regard to the best interests of shareholders.

To facilitate recruitment, the Committee may make one-off awards to "buy out" variable pay or contractual rights which an individual would forfeit on leaving their current employer. Any such buy-out would, where possible, be on a comparable basis and would take into account value, performance targets, the likelihood of those targets being met and vesting periods. Generally, buy-out awards will be made on a comparable basis to those forfeited. In considering its approach, the Committee will give due regard to all relevant factors (including quantum, the nature of remuneration and the jurisdiction the candidate was recruited from).

Excluding the value of any potential buy-out, the maximum value of variable remuneration offered at recruitment to any new executive director will be 450% of base salary. This is within the maximum amounts currently laid out in the relevant policy table detailed at section 1.1 of this report, namely a maximum annual bonus opportunity of up to 200% of base salary and a maximum LTP award of up to 250% of base salary.

Shareholders will be provided with full details including the rationale for the relevant arrangements in the next published remuneration report.

For the recruitment of a non-executive director or Chairman, remuneration would be provided in line with that provided to the Company's other non-executive directors or Chairman.

## 1.3 Service contracts

	<b>Contract date</b>	<b>Notice period</b>
Robin Watson	1 January 2013	6 months
David Kemp	13 May 2015	12 months

None of the service contracts provide for predetermined amounts of compensation to be paid in the event of early termination and there are no further obligations contained within the executive directors' service contracts which could give rise to any remuneration payment which has not already been disclosed in this remuneration policy.

Non-executive directors have each entered into letters of engagement addressing remuneration, services to be provided, conflicts of interest and confidentiality. The letters of engagement do not have fixed terms to be paid and are terminable with up to 90 days' written notice. None of the letters of engagement provide for predetermined amounts of compensation in the event of early termination and there are no further obligations contained within the letters of engagement which could give rise to any remuneration payment or loss of office payment which has not already been disclosed in this remuneration policy.

The executive service contracts and the non-executive letters of engagement are available for inspection at the Company's registered office.

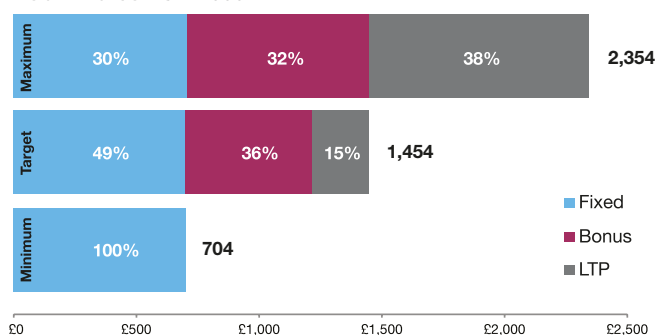
### 1.4 Illustrations of application of remuneration policy

As explained in the table in section 1.1 of this report a significant proportion of remuneration is linked to performance, particularly at maximum performance levels.

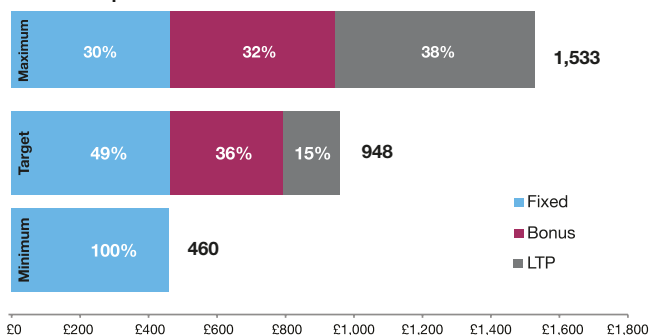
The bar charts below provide an indication of the level of remuneration that could be received by each director under the Company's remuneration policy in three assumed performance scenarios. Notes laying out the basis of calculation and the assumptions used to compile these charts follow the charts.

These charts are for illustrative purposes only and actual outcomes may differ from that shown.

**Robin Watson GBP'000**



**David Kemp GBP'000**



**Notes to the charts illustrating the application of remuneration policy**

The following assumptions have been used in preparing these charts.

**Minimum performance** – under this scenario, it has been assumed that each executive director receives his base salary, benefits and pension related benefits only.

**In line with expectations (target)** – under this scenario, it has been assumed that each executive director receives their base salary, benefits and pension. For the purposes of bonus, it has been assumed that annual bonus awards have been made at target levels and that LTP performance is such that awards have vested at threshold level.

**Maximum performance** – under this scenario, it has been assumed that each executive director receives his base salary, benefits and pension. For the purposes of bonus, it has been assumed that annual bonus awards have been made at maximum levels and that LTP performance is such that awards have vested at maximum level.

In all scenarios, fixed remuneration comprises base salary, benefits and pension. The figures used in preparing the charts are as follows: salary is the last confirmed salary; benefits is the last known figure as set out in the single figure of remuneration table for 2015; and for defined contribution pension or cash allowance in lieu of pension, the figure is based on the policy as laid out in the future policy table at section 1.1 of this report and the last confirmed salary; short-term and long-term incentives are based on the policy as laid out in the future policy table at section 1.1 of this report and the last confirmed salary. Although the LTP allows for awards of up to 200% of base salary (250% of base salary in exceptional circumstances), the illustration reflects potential awards to be made in 2016 (150% of base salary for the Chief Executive and 125% of base salary for the CFO). Under the LTP, dividends accrue during the performance period and are paid in shares proportionately in respect of the number of shares which subsequently vest. For reasons of clarity, any dividend accrual has been excluded from the charts above. In line with the methodology outlined in the relevant legislation, no share price growth has been assumed for the purpose of these illustrations.

**The percentage figures contained within each of the bars illustrates the percentage of the total comprised by each of the parts. The figure at the end of each bar is the total amount represented by each bar.**





**1.5 Policy on payment for loss of office**

It is the Company's policy for all executive directors to have service contracts which can be terminated by the director or by the Company on 6 months' notice, except in the case of the CEO and CFO or where historical agreements are in place when 12 months' notice applies.

On termination of service contracts by the Group, in certain circumstances executive directors are entitled to the payment of their remuneration, subject to a general duty to mitigate their loss. There are no specific

provisions under which executive directors are entitled to receive compensation upon early termination, other than in accordance with the notice period. Executive directors' contracts allow for termination with contractual notice from the Company or termination with a payment in lieu of notice, at the Company's discretion.

The Committee's policy in respect of the different elements of remuneration for executive directors leaving under different scenarios is as follows:

<b>Payment</b>	<b>"Good" leaver</b>	<b>Other leaver</b>
Base salary, pension and benefits	<p>Paid up to the date of leaving, including any untaken holidays and, subject to mitigation, payment in lieu of notice where the Company considers it inappropriate for a departing executive director to work the required notice period.</p> <p>Disbursements such as legal costs, outplacement may be considered.</p>	<p>Paid for the proportion of the notice period worked.</p>
Annual bonus	<p>For reason of injury, disability, ill-health, retirement, sale of employing entity out of the Group and in such circumstances as the Committee may determine otherwise (including redundancy):</p> <ul style="list-style-type: none"> <li>• Paid up to the date of leaving based on completed months worked in the year with payment made on normal payment date once plan outcomes are known</li> <li>• Any deferred amounts from previous years which are not yet paid are paid at the normal payment date for such deferrals</li> </ul> <p>On death, an immediate payment may be made, at the discretion of the Committee, taking into account performance and the proportion of the relevant bonus year served. Deferred bonus amounts will vest in full at the time of death.</p>	<p>No entitlement to any award for the current year and the forfeit of any deferred awards from previous years not yet paid.</p>
Long-term incentives	<p>For reason of injury, disability, ill-health, sale of employing company or business or, for any other reason determined by the Committee:</p> <ul style="list-style-type: none"> <li>• Unless the Committee determines otherwise, where the executive director has completed the required period of service set by the Committee (normally 18 months from the start of the performance period) then awards will vest on a proportionate basis as if the participant had not ceased office or employment unless the Committee determines that awards should vest as soon as practicable following cessation</li> <li>• The number of shares that vest in these circumstances shall be determined by the Committee taking into account the extent to which the performance conditions have been satisfied and, unless the Committee determines otherwise, the period of time elapsed since grant</li> <li>• For US executives who have completed the required period of service set by the Committee (normally 18 months from the start of the performance period), where cessation of employment occurs before the Committee's assessment of the performance condition, awards will vest on the date of such termination, unless the Committee determines awards should vest as soon as practicable following cessation of employment</li> </ul> <p>On death, unless the Committee determines otherwise, where the executive has completed the required qualifying period of service set by the Committee (normally 18 months from the start of the performance period), unvested awards vest to the extent determined by the Committee taking into account the extent to which the performance condition has been satisfied and, if the Committee considers it appropriate, the period that has elapsed since grant.</p>	<p>All existing awards lapse.</p>

## **1.6 Change of control**

In the event of a change of control, vesting of awards (shares and/or cash) under the Company's short- and long-term incentive plans depends on the extent to which performance conditions have been met at that time. Time pro-rating may be disappplied if the Committee considers it appropriate given the circumstances of the change of control.

In the event the Company is wound up or if there is a demerger, delisting, special dividend or other event that may materially affect the current or future value of shares, the Committee may determine that awards may vest depending on the extent to which performance conditions have been met at that time.

## **1.7 Consideration of employment conditions elsewhere in the Group**

The Committee is mindful of pay and conditions in the wider workforce within the Group and is kept informed on the pay and benefits provided to employees below the level of executive director by the Group Head of Human Resources, including any relevant information received via employee feedback. One particular factor considered by the Committee when reviewing the base salary increases for executive directors is the range of base pay increases which apply elsewhere in the Group.

Given the size of the Group and the way remuneration practice varies by jurisdiction, the Committee did not consider it appropriate to consult with employees across the Group on the remuneration policy for directors or to use any other remuneration comparison measurements linked to the pay and employment conditions of employees elsewhere in the Group when determining the quantum and structure of the directors' remuneration.

## **1.8 Consideration of shareholders views**

The Committee's policy is that shareholder consultation will take place in advance of any material change being proposed to the Directors' Remuneration Policy as described above. A summary of any such consultation and the Company's response to substantive points raised will be included in this section in future years.



