

8. Chairman's remuneration

Introduction

This paper, prepared by the Compensation and Benefits team at Deloitte LLP, for the Board of Carillion plc ("**Carillion**" or the "**Company**") provides a benchmarking analysis of non-executive Chairman's fee levels in companies of a similar size to Carillion.

Context

The role of Chairman is the most difficult role to provide a single operational benchmark for as the nature of the role can vary significantly between companies. Consequently, market practice for Chairman's fee levels is more diverse than for other executive or non-executive roles.

The fee levels for non-executive Chairmen tend to be influenced by two main factors – company size and the number of days' service required. However, in determining an appropriate fee level for the role at Carillion, further consideration may need to be given to factors such as:

- The experience of the individual – what is the calibre of the individual and their reputation in the marketplace?
- The actual scope and dynamic of the role – is the Chairman's role to just manage the Board, or is he expected to have a greater presence in the marketplace and have a high level of input on strategic decisions?
- The time commitment of the role – recognising that the time commitment required may vary at any given time, on average, how many days per week would the Chairman be expected to devote to the Company?

Time Commitment

Few companies disclose information regarding the time commitment of the Chairman. However, in our experience, this is typically between one and two days per week in FTSE 250 companies.

Methodology

The information presented in this paper has been based upon disclosures made in the most recently published company report and accounts.

Benchmark reference points have been provided against:

- FTSE 250 companies;
- companies within a similar market capitalisation to Carillion (£950m to £1,950m); and
- A bespoke industry comparator group.

¹ Based on Carillion's 12 month average market capitalisation to 17 November 2015 (circa £1,450m).

As stated above, consideration should be given to a number of factors in addition to the benchmark, which is based solely on financial size.

Benchmark Fee Levels

Historically, companies have not reviewed the fees of non-executives (including Chairman) every year, but every two or three years. Although a relatively small number of companies disclose the policy in relation to the frequency of fees reviews, where this is disclosed the data suggests that in around 75% of companies, fee reviews are now typically held every year, and every two years in the remainder.

Over the last year, Chairmen fee levels have remained relatively static, corresponding with the trend for pay freezes / minimal salary increases for executive directors. The median increase (including those companies not awarding any increase) in non-executive Chairmen fees for FTSE 250 companies for 2015 is 0% (and 1.5% for 2014), the table below shows the range of salary increases for the last two years. It should be noted that not all companies have disclosed this information and not all companies have yet reported for 2015 and these numbers may therefore change when the full picture is available.

Salary increase	Lower quartile	Median	Upper quartile	% of companies with zero increase
Increase to 2014	0%	1.5%	4.2%	47%
Increase for 2015	0%	0%	2%	67%

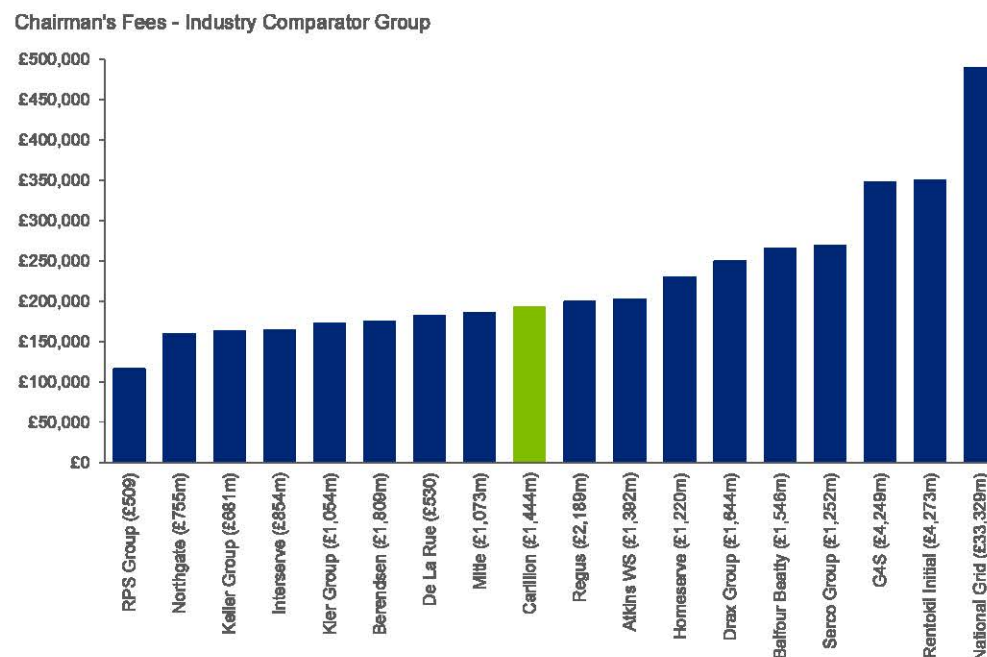
The table below shows the benchmark fee levels for the position of non-executive Chairman in both FTSE 250 companies and those of a similar size to Carillion in terms of market capitalisation. The analysis is based on Chairman's fee policy data as disclosed in the Directors' Remuneration Report. For reference, the current Chairman receives a fee of £193,000.

Comparator group	Number of companies	Lower quartile	Median	Upper quartile
FTSE 250	183	£157,500	£187,500	£250,000
Companies with a similar market capitalisation (£950m – £1,950m)	79	£160,000	£185,000	£236,600

On appointment as Chairman, Phillip Green has received a fee of £193,000 pro-rata from 7 May 2014 (and does not receive any additional fees for committee memberships). Using the above benchmarks, based on a 'standard' Chairman role with a time commitment of around one to two days per week, the current fee of £193,000 is positioned just above the median against FTSE 250 Chairmen and companies with a similar market capitalisation to Carillion (based on the twelve month average market capitalisation Carillion is positioned just above median in the FTSE 250). However, in determining an appropriate fee level, consideration should also be given to the scope of the role as well as the skills, experience and qualities of the individual in the role.

² It should be noted that a review does not always result in an increase in fees.

The table below shows the salary position of Carillion's Chairman compared to a bespoke industry comparator group with three month market capitalisation included.



The following table shows benchmark level of fees for the position of non-executive Chairman in the bespoke industry comparator group.

Comparator group	Lower quartile	Median	Upper quartile
Industry comparator group	£173,000	£200,000	£265,750

Using the above benchmarks the Chairman's fees for Carillion are below median but broadly market competitive compared to the industry comparator group.

Paying Chairmen Fees in Shares

Currently, 5% of FTSE 250 companies either make payment, or part payment, of fees in shares, or encourage non-executive directors to take the fees in shares. 9% of companies articulate a specified shareholding, although in some cases this may just be encouraged, rather than a requirement. Investor best practice guidelines suggest there is merit in doing so and our observation is that this is becoming more common.

“Shareholders encourage non-executive directors to own shares in the company. Chairmen and non-executives may receive part of their fees in shares bought at the market price. However, shareholders consider it inappropriate for chairmen and independent directors to receive incentive awards geared to the share price or corporate performance.”

Investment Association – Principles of Remuneration, November 2015

The table below shows the different practices in FTSE 250 companies. We have distinguished between those companies who have a specified shareholding requirement that must be maintained and those where fees are paid in shares, or where directors are expected to use their fees to buy and hold shares.

	FTSE 250
Part or all of fees must be used to buy shares or directors encouraged to use the fees to buy shares.	5%
Required or encouraged to hold shares or to maintain a specified shareholding.	9%

Usually only a proportion of the fees will be paid in shares and this is typically between 20% and 40%. Another alternative is to provide any fee increase in the form of shares.

Deloitte LLP
November 2015

Appendices