

.Carillion plc
MINUTES OF A MEETING OF THE REMUNERATION COMMITTEE
OF THE BOARD OF DIRECTORS

Held at 25 Maddox St., London W1

On

Thursday 7 September at 1pm

Present:	Mrs. A. Horner	Chairman
	Mr. A.J.H Dougal	
	Baroness Morgan of Huyton	
In attendance:	Mr. R.F. Tapp	Secretary
	Mrs. J. Dawson	
	Ms. N. Denby	Deloitte

1. INTRODUCTION

Mrs Horner noted that the three key issues for decision were the terms on which it was proposed that Mr Howson, the former Chief Executive, would leave the business; the conceptual design of the package for a replacement Chief Executive, and the agreement of potential leaver terms for a number of other operational CELT members and their replacements.

2. MINUTES

The Minutes of the meeting of 9 July 2017 were approved.

3. CHANGES TO POLICY AND GOVERNANCE: FUTURE AND CURRENT ARRANGEMENTS

Mrs Dawson introduced the paper, which had been circulated, noting a number of proposed changes to the terms of the executive pay structure which could be adopted on appointment of a new CEO. It was noted that certain aspects may impact Mr Khan

a. New arrangements.

Ms Denby noted that the proposals would take the group to “best practice” on each element; Blackrock had already adopted an agenda on these areas of governance, particularly around pension contributions and LGIM was supportive so it was expected the market would move to 20% as the “new normal.”

On shareholding, the recommendation was to move to a requirement of a 200% shareholding built up over time – some 5-6 years was not unreasonable – and Ms Denby confirmed that that represented median market practice. The current policy would continue of no share sales (other than to settle tax and NICs) until the holding requirement was met.

It was agreed that the following proposals should be approved, within the current remuneration policy:

- a bonus of 100% of salary,
- a leap/long-term incentive of 150% of salary,
- pension contribution of 20% of salary,
- shareholding guideline of 200% of salary.

In terms of additional governance measures, the following were agreed:

- **Minimum shareholding:** the minimum shareholding guideline be increased to 200% of salary: the change would not require shareholder approval.
- **Malus and clawback triggers:** the following malus and clawback triggers be adopted for future grants through changes in the DBP and LEAP rules: they would not require shareholder approval:
 - material misstatement of results
 - error in assessing a performance condition or in the information or assumptions on which the award was granted or vested
 - material failure of risk management
 - serious reputational damage
 - serious misconduct or material error on the part of the participant
 - any other circumstances which the Remuneration Committee in its discretion considers to be similar in their nature or effect.
- **Malus and clawback operation:** that the current time-frames remained in place but that internal communication to the executive directors re-emphasised the provisions that existed around the malus and clawback provisions.
- **Leaver provisions under DBP and LEAP:** that the holding period and deferral period would not be waived for any leavers.

b. Impact and considerations for incumbent executive directors (i.e. Mr Khan)

It was noted that there was no change to the current quantitative value of remuneration. The shareholding guideline would be increased to 200%, and the same malus and clawback provisions proposed for new executives would apply to awards going forward.

It was agreed in principle that the Committee would ask that Mr Khan agree that the new malus and clawback arrangements apply to his April 2017 award, and that he also be asked to agree that they apply to the unvested LEAP awards from 2015 and 2016 and unrealised DBP awards relating to the 2016 bonus. It was noted that this could not be achieved without agreement and an appropriate time would be identified to make the request.

4. LEAVER ARRANGEMENTS

Mrs Dawson introduced the paper, which had been circulated, noting that a number of decisions were required in relation to a number of executives, including Mr Howson, who would exit the business at the end of September 2017. The committee confirmed that:

1. Only those individuals who are to be formally made redundant would be treated as “good leavers”. All others would have their LEAP awards automatically lapse on cessation of employment.
2. LEAP awards for good leavers (redundancies) will run to the end of each performance period and will be performance assessed at that point.

3. The deferral periods under the DBP which applied to Mr Howson would not be waived.
4. Any decision on whether to apply malus to the unrealised deferred shares held by Mr Howson which relate to the 2014, 15 and 16 bonuses will be made prior to the release of each award.
5. Accordingly the CELT members who leave employment at the end of September, including Mr Howson, will receive contractual entitlements only relating to salary, benefits and redundancy where applicable.

With regard to Mr Howson, Mrs Dawson reported that it was now proposed that his severance arrangements should be made in accordance with the option in his contract that allowed the Company to opt to continue the payment of remuneration on a contractual basis during the period of notice. The Committee agreed that it would prefer that arrangement and that it should be put to Mr Howson on that basis.

The Committee also discussed whether the executive directors should be asked to return their 2016 bonus. It was agreed that that could not be enforced and would be very difficult to achieve at this stage; however, Mrs Horner asked that in settlement agreements, it be proposed that if anything did come to light in ongoing investigations the group may be able to claw back the bonus. Mrs Dawson confirmed that she would speak to lawyers to seek to conclude on that basis.

5. CEO REWARD COMPARISON

Building on the changes to policy and governance discussed earlier in the meeting, Mrs Dawson drew the Committee's attention to the reward arrangements comparison paper which had been circulated, and which might form the basis of discussion with the candidate concerned.

The Committee noted the paper, and also that within the confines of the Remuneration Policy, the base salary and other arrangements needed to work to attract the right candidate, and that new LEAP and bonus schemes were needed.

6. BENCHMARKING FOR SENIOR ROLES

Mrs Dawson reminded the Committee that there was an understanding that CELT-equivalent roles were brought to the Committee for approval. In that regard, she noted that the following benchmarks had been identified:

- COO role - up to £300k plus 100% bonus and level A benefits (other executive committee members to move to 100% bonus from 2018)
- Sector MDs – up to £240k plus 100% bonus and level A benefits

The Committee noted the position.

Chairman