

2. Remuneration Arrangements – Interim CEO

Background

On appointment, it was agreed that there would be two elements to Keith's remuneration:

1. A flat annual fee of £750,000 with 6 months guaranteed for service up to three months and the full annual fee of £750,000 payable thereafter. The notice arrangements in the Remuneration Policy allow us to achieve this.
2. Accommodation provided by the company via hotels or an apartment. This to be provided as tax effectively as possible.

Keith has subsequently requested a change to these arrangements.

1. The ability to earn a bonus in addition to the base fee
2. A housing allowance rather than hotel accommodation.

Bonus

- The Remuneration Policy provides for a bonus opportunity of up to 100% of the base salary. Any payment has to be proportionate both to performance and tenure and to the circumstances of the business. Under the recruitment section of the Policy the performance measures and performance period can be amended. The rationale for the changes must be explained.
- Given the temporary nature of the role, it would only be payable at the end of the appointment.
- There is no plan to pay any bonus in respect of 2017 for executive directors and senior management.
- The bonus measures and relative weightings (where applicable) will need to be disclosed in the FY17 Director's remuneration report. The specific targets are not required to be disclosed in FY17 but will need to be disclosed in FY18 together with actual performance against those targets.
- Deloitte have advised that shareholders will be sensitive to the increase in salary for Keith as compared to Richard's salary as this has been an area of contention in the 2016 and 2017 AGM seasons. They recommend that any bonus proposal should therefore take this sensitivity into account and the overall values which might be delivered against the commercial position for shareholders.

Proposal

That a bonus opportunity of 100% is provided based on actual earnings in the role (i.e. ignoring any notice period paid) with an on target payment of 50% of the opportunity. This allows tenure and performance to be taken into account. There would be no payment in 2017 but salary earned in 2017 would be included for the bonus calculation. The key performance objectives proposed are:

- Completing the refinancing process and/or cornerstone investor secured
- Key business disposals completed
- Getting the new leadership structure in place following the strategic review
- On track for the delivery of the identified cost savings

Example 1 - Tenure to 30 March 2018

Nine months with base fee earnings of £562,500. On target bonus performance at 50% would give rise to a payment of £281,250. Overall earnings including bonus and notice period £1,031,250.

Example 2 – tenure to 30 June 2018

Twelve months with base fee earnings of £750,000. On target bonus performance at 50% would give rise to a payment of £375,000. Overall earnings including bonus and fees £1,125,000.

Exceptional performance could give rise to a higher bonus if maximum performance against the targets is delivered.

Housing Allowance

To date, Keith has been provided with hotel accommodation via expenses. This is tax free for up to 24 months. We have investigated alternative accommodation provision including rental of apartments, serviced and stand-alone, long term hotel arrangements etc. We have been unable to meet the specifications set in the preferred locations in central London at an acceptable price - £1,000 to £1,500 per week (see appendix 2.)

Hotel costs have been running at £283 per night excluding VAT. For four nights in London that is £1,132 per week - £1,981 for five nights – Sunday to Thursday.

The existing policy for second homes in London is a taxable payment of £150 per night.

Options:

1. A taxable payment of £2,358 per week, £10,218 per month, producing a net payment of £1,250 or £5,416 per month – Keith's proposal based on hotel expenses
2. A taxable allowance of £1,886 per week, £8,172 per month, producing a net payment of £1,000 per week, equating to- £4,333 per month
3. A taxable allowance of £1,500 per week, £6,500 per month, producing a net payment of £795 or £3,445 per month
4. Payments in line with the policy above

Total expenses disclosed in the Single Figure Table for Richard Howson in FY16 were £28k. Under the four alternatives above, comparative figures for 2017 and 2018 (with the allowance coming into effect from 1 October and with an assumed tenure to 30 June 2018) would be as follows (assuming no other taxable benefits are incurred):

	FY17	FY18
Net payment of £1,250 per week	30,654	61,308
Net payment of £1,000 per week	24,518	49,036
Net payment of £795 per week	19,500	39,000
Carillion policy of taxable payment of £150 per night	9,750	19,500

Appendix 1 sets out examples of companies in the FTSE 250 who have housing allowances and/or high level of expenses disclosed in their Single Figure Table in the most recent published figures. Appendix 2 sets out the costs from our specific search.

Appendix 1.

Summary of FTSE 250 companies who

1. Disclose that they provide a housing allowance;
2. Had a benefits figure in the single figure table in excess of £60k in the most recent financial year
3. Had a housing allowance and a high benefits figure – with IVIS and ISS comments

FTSE 250 companies who disclose a housing allowance

Company	Executive position	Benefits disclosed	Benefits description
Serco Group	CFO	40,310	
Playtech	CFO	23,000	
Phoenix Group Holdings	CFO	16,000	
Lancashire Holdings	CFO	81,000	Benefits comprise Bermudian payroll taxes, social insurance, medical, dental and vision coverage and housing and other allowances paid by the Company for expatriates (as is the case for the CFO), but exclude UK National Insurance contributions.
Restaurant Group	CEO	29,000	Receives relocation benefit, covering travel and accommodation. Travel and accommodation benefits will cease after 12 months or upon relocation, whichever is the sooner.
CYBG	CEO	67,000	£30,000 p.a. car cash allowance and £35,000 p.a. relocation allowance which is payable until May 2017.
Vedanta Resources	Deputy Executive Chairman	67,000	Also includes driver
Vedanta Resources	CEO	90,000	Also includes driver.

FTSE 250 companies who disclosed a benefits figure in excess of £70k

Cobham	CEO	404,000	Includes £147,000 expatriation allowance £22,000 travel expenses £200,000 relocation allowance.
Coats Group	CEO	281,600	includes \$100,000 international allowance and other relocation benefits.
Howden Joinery Group	CEO	193,000	Car allowance; non-exclusive use of a driver; health insurance and death-in-service insurance payable by the Company. For CEO also travel between his home and the London office.
Amec Foster Wheeler	CEO	165,000	CEO's benefits include one-off contractual amounts which were agreed as part of his recruitment, comprising relocation expenses (£142,000) in respect of his relocation from the US to the UK.
Electrocomponents	CEO	129,109	Includes a one off relocation allowance of £107,690
Just Eat	CEO	127,881	
Ferrexpo	CEO	126,000	Accommodation allowance.
Vedanta Resources	CEO	124,000	
Serco Group	CEO	102,541	Relate primarily to his expatriate status, including costs of £80,527 for accommodation and travel.
Provident Financial	CEO	102,000	
Jardine Lloyd Thompson Group	CEO	101,000	Company car (or equivalent cash allowance), subscriptions, life assurance, private medical and permanent health cover.
Britvic	CFO	94,800	Relocation allowance: £56,148.
Jimmy Choo	CEO	93,000	Company car, school fees, private healthcare and product allowances.
Vedanta Resources	CEO	90,000	Also includes driver
Cobham	CFO	89,000	£69,000 outplacement and legal fees
Paysafe Group	President and CEO	88,000	Family healthcare insurance (\$72,531) and provision of accommodation benefits related to inter-office travel (\$46,173).
NEX Group	CEO	86,000	Driver and travel benefits
Aggreko	CFO	84,247	Also includes travel and "other" benefits.
Cineworld Group	CEO	84,000	Disturbance allowance: £40,000 as required to spend a sufficient and proportionate amount of time at Company's head office in Brentford, Greater London.

Inchcape	CEO	84,000	Relocation costs paid until March 2016
Lancashire Holdings	CFO	81000	Benefits comprise Bermudian payroll taxes, social insurance, medical, dental and vision coverage and housing allowances
Cineworld Group	Deputy CEO	77,000	Disturbance allowance: £40,000 as required to spend a sufficient and proportionate amount of time at Company's head office in Brentford, Greater London.
Howden Joinery Group	Deputy CEO & CFO	77,000	Car allowance; non-exclusive use of a driver; health insurance and death-in-service insurance payable by the Company.
Drax Group	CEO	76,000	Car allowance, life assurance (four times salary), the opportunity to participate in all-employee share plans on the same basis as other employees, annual private health assessment and annual private medical cover.
Hikma Pharmaceuticals	CEO	70,000	

FTSE 250 companies with housing allowance and with high benefits – IVIS and ISS recommendations

Position	Benefits	Description	IVIS	IVIS description	ISS	ISS description
Cobham	404000	£147,000 expatriation allowance £22,000 travel expenses £200,000 relocation allowance.	Amber	Shareholders will note the changes recently made to the Board composition and the consequential amendments to the remuneration arrangements.	ForX	Salary positions of the CEO and CFO are pitched somewhat aggressively. · The buyout award of the newly appointed CFO is not attached to any performance conditions
Ferrexpo	126000	Accommodation allowance.	Amber	Shareholders will need to be comfortable with the level of disclosure under the annual bonus plan.	ForX	The objectives under the personal element of the annual bonus (STIP) scheme are difficult to quantify.
Serco	102541	relate primarily to his expatriate status, including costs of £80,527 for accommodation and travel.	Blue	Adjustments to financial metrics for bonus plan purposes	ForX	Bonuses for FY2016 were substantial, which is noteworthy in light of the Company's troubled recent history and ongoing challenges.

Paysafe	88,000	Family healthcare insurance (\$72,531) and provision of accommodation benefits related to inter-office travel (\$46,173).	Amber	disclosure regarding the non-financial objectives.	For	The quantum of the CEO's pay will be kept under review, with any further increases to base pay warranting particular scrutiny.
Cineworld	84000	Disturbance allowance: £40,000 as required to spend a sufficient and proportionate amount of time at Company's head office in Brentford, Greater London.	Blue	Level of disclosure in relation to EBITDA targets under the bonus plan.	For	A vote FOR the remuneration report is warranted in the absence of material concerns