2020 Directors' Remuneration Policy Q&A

What are the principles of QinetiQ's Directors' Remuneration Policy?

QinetiQ's remuneration principles are 'Flexible', 'Stretching' and 'Aligned'. This means we aim to select targets each year that are stretching and ensure our executives are incentivised to drive the successful implementation of our strategy. This also means we can be agile in responding to market conditions as they arise, while also ensuring reward is deferred over the long-term to align with our shareholders' interests and deliver sustainable financial performance.

How does the Policy align executive pay with the interests of shareholders?

Both QinetiQ's annual incentive scheme and share plan are long-term in nature, with approximately 70% of variable pay being deferred as shares or notional shares in any year. In our annual bonus scheme, 50% of the award is deferred and held as notional shares and is therefore subject to share price exposure. In our Deferred Share Plan there is a four year vesting period after which the minimum level of profitability that gave rise to the award must be maintained, incentivising executives to drive sustainable growth. There is then a further two year holding period.

How does your Policy reward the implementation of company strategy?

Our strategy, as detailed in our five year Integrated Strategic Business Plan ('ISBP'), aims to deliver sustainable and long-term growth in our business and to increase value to our shareholders. Our Remuneration Policy aligns with our strategy by providing us with the flexibility to set relevant and stretching annual targets (aligned to year 1 of our ISBP), the rewards for which are deferred over several years. We have the ability to change the Deferred Share Plan metric when we feel there is a more relevant strategic priority, so believe our reward framework is closely linked to its successful implementation.

How does the policy drive improvement in the corporate culture?

Our annual bonus scheme includes a 25% weighting towards non-financial metrics. These focus on things like improving employee engagement and embedding new safety programmes. Given our history in the public sector transforming our corporate culture to develop our business winning capabilities and become more commercial has been critical to delivering improved financial returns for our shareholders. Ultimately, we believe that good governance and a strong corporate culture deliver improved financial returns over the long-term, which is rewarded by our Policy.

How does the Bonus Banking Plan (BBP) work?

- The Bonus Banking Plan is a medium-term (four year) plan with an initial annual measurement period, with deferred awards based on profit and share price performance;
- A maximum award of 200% of salary is available each year;
- At the end of the first year 50% of the award is paid as a cash bonus;
- The remaining 50% is deferred and held in a 'pot' as notional shares, which are subject to share price exposure;
- At the end of the next year, any award is added to the 'pot' and 50% of the 'pot' will be paid as cash-based notional shares, with the remaining proportion again deferred;
- At the end of year four, the entire remaining pot is paid in shares;
- The financial metrics used for the BBP are orders, operating profit and operating cash flow, each with a weighting of 25%;
- The non-financial metrics carry a collective weighting of 25% and include priorities such as implementing new safety programmes and transforming the culture and engagement levels within the business. This supports long-term sustainable growth.

How does the Deferred Share Plan (DSP) work?

- The Deferred Share Plan is a six year long-term incentive scheme that aims to reward success against the long-term strategy;
- The maximum award is 125% of salary;
- There are various underpins throughout the scheme with an initial contingent share award grant based on the achievement of a key strategic growth measure aligned to our strategy;
- If the margin underpin on this growth measure is not achieved, 100% forfeiture will occur and the initial award will not be made regardless of the growth achieved;
- At the end of the four year period, as long as the level of profit that was achieved in the year of award is maintained, the initial award of shares will vest;
- These vested shares are subject to a further two year holding period;
- The DSP shares which vest will only appear in the single figure at year four, as this is when the auditors view the performance obligations of the award as having been satisfied;
- Should the minimum profitability level not be maintained at year four, the initial award is subject to at least 50% forfeiture, at the discretion of the Remuneration Committee.

How has the company improved the approach to remuneration since the 2017 AGM vote?

The Remuneration Committee noted the vote (63.8% 'For') when the Policy was approved at the 2017 AGM. In response, we have –

- Improved the disclosure in the Annual Report on Remuneration since the 2017 vote to be more transparent and enable shareholders to review decisions taken as we implement the Policy;
- Changed the DSP performance measure (in response to initial shareholder concerns over 'double-dipping' on profit in FY18);
- Made every effort to engage with major shareholders to explain the Policy and the positive impact on company performance;
- Enhanced the Remuneration Committee target-setting process (which resulted in the FY20 stretch targets being revised upwards to reflect exceptional FY19 performance).

How have you focused on employee engagement on QinetiQ?

Our employees share in the Company's success following the introduction of an All-Employee Incentive Scheme in FY19 which pays up to £1,000 to all eligible employees on the basis of the Company's annual operating profit performance; this plan is important to us as a driver to embed cultural change and is in place for FY21 and thereafter.

Our Employee Engagement Group (EEG), representing our UK employees, is deeply engaged across the company provide an employee voice at the table (including regular interactions with the Chairman, Remuneration Committee Chair, CEO and the Group HR Director). We listen to the views and level of engagement of our employees and we monitor this through a quarterly survey using a market-leading dynamic tool (Peakon).

What changes will you be making to the Policy at the 2020 AGM?

The Remuneration Committee has conducted a detailed review and our view is that the Directors' Remuneration Policy is working as it is driving results, provides contingent shares to our senior leaders and has strong shareholder alignment. Therefore we believe that the Policy should remain in place for another three-year cycle, with no increase in the quantum of the remuneration package.

However, the Committee is aware that there are two areas where we are not aligned with current regulatory/shareholder requirements:

Pension allowance – the Committee agreed to reduce the allowance for new Executive Directors (currently 15% of base salary as per our 2017 Policy) to be aligned with the pension for employees (a maximum of 10.5% in QinetiQ UK).

It is proposed that the approach for current Executive Directors (20% of base salary) be maintained at this level for the 2020 Policy vote. However, the Committee will commit, as part of this 2020 Policy approval, to reducing the pension allowance to 10.5% (our UK employee contribution) over the life of the 2023 Policy.

Post-employment shareholding – the Committee has agreed a post-employment shareholding requirement of 100% of salary for one year post-cessation, then 50% of salary for a further one year.

Note that the DSP already has a two-year holding period post-vesting. This will dovetail with the new requirement, as the DSP holding period continues in force after cessation of employment for Executive Directors.

Directors' remuneration report continued

Directors' remuneration policy

Introduction

Just over four years ago, QinetiQ launched an ambitious strategy to deliver long-term and sustainable growth for shareholders. In parallel to this, the Remuneration Committee developed an innovative Directors' Remuneration Policy to incentivise our leadership team, align their interests with shareholders, and ensure we created the right cultural changes to sustain our strategy. This Directors' Remuneration Policy was first approved by shareholders at the 2017 AGM.

The development of our Directors' Remuneration Policy remains built on three guiding principles:

- **Flexible:** To ensure that executives are incentivised to deliver against each stage of our strategy in light of the prevailing market environment;
- **Stretching:** Targets are set to ensure executives are incentivised to outperform, whilst delivering sustainable performance;
- **Aligned:** The Directors' Remuneration Policy aligns executives' interests with those of shareholders, this is achieved through the long-term nature of our Policy, a focus on rewarding through deferred shares and various underpins relating to sustained financial performance.

The review process

The Committee led the review process throughout, taking account of market practice, the views of the Committee members, executives and external advisers as appropriate to help shape our thinking. No individual is involved in the decision making on their own remuneration.

We then engaged with many of our largest shareholders and the general view was that the current Directors' Remuneration Policy is robust, resulting in pay that is commensurate with the performance of the business. This view is shared by the Remuneration Committee and hence the Committee is proposing limited changes to the current Directors' Remuneration Policy at our 2020 AGM.

However, in light of the Corporate Governance Code and shareholders' feedback and views, two areas of the Directors' Remuneration Policy which we will change are:

- Pension allowances – all new Executive Directors will receive a 10.5% pension allowance payment which is the maximum available to the wider UK workforce. For current Executive Directors, the pension allowance will be maintained at 20% of salary for the three-year life of the 2020 Policy; it will thereafter be reduced in phases to 10.5% of salary over the three-year life of the 2023 Policy.
- Post-employment shareholdings – Executive Directors will have a post-employment shareholding requirement of 100% of salary for one year after they leave employment, reducing then to 50% of salary for a further one year.

Otherwise, the operation of the Policy is the same as the previous Policy in force.

The Committee undertook further consultation to understand the reasons behind the vote (63.8% 'For') when the Directors' Remuneration Policy was approved at the 2017 AGM. In light of the shareholder feedback we received, we have improved the disclosure in the Annual Report on Remuneration since the 2017 vote to enable shareholders to review decisions taken as we implement the Policy. The Remuneration Committee has also developed a new process for target setting given that a concern expressed by shareholders was that QinetiQ's incentive arrangements are heavily dependent on annual performance measurement. We have also made every effort to engage with major shareholders to explain the Policy and the positive impact on company performance and culture. The Remuneration Committee therefore seeks approval for the Policy at the AGM on 14 July 2020.

Scope of policy

The Policy applies to Executive Directors, the Group Chairman and Non-executive Directors. Reference may also be made to the Global Leadership Team who, while not Directors, fall within the Remuneration Committee's remit, although the policy is not binding for these individuals.

Duration of policy

The Directors' Remuneration Policy will be put forward for a binding vote at the AGM on 14 July 2020 and will be effective from that date. The Policy is expected to remain in effect until the 2023 AGM.

Discretion

The Committee has discretions in several areas of Policy as set out in this report. The Committee may also exercise operational and administrative discretions under relevant plan rules as set out in those rules. In addition, the Committee has the discretion to amend the Directors' Remuneration Policy with regard to minor or administrative matters where it would be, in the opinion of the Committee, disproportionate to seek or await shareholder approval; the Committee commits to communicating to shareholders when discretion is used.

Approach to incentives

The Committee conducted an extensive review of the Directors' Remuneration Policy which has resulted in the Committee proposing to retain the incentive arrangements, made up of two elements (collectively the Incentive Plan):

- Bonus Banking Plan with no change to the current terms and conditions and a maximum opportunity of 200% of salary.
- Deferred Share Plan to with no change to the current terms and conditions and a maximum opportunity 125% of salary.

Initial awards under the Deferred Share Plan will continue to be based on challenging strategic financial growth objectives set by the Committee each year in line with the Company's Integrated Strategic Business Plan.

Approach to incentives continued

The initial award of contingent shares under the Deferred Share Plan is subject to a three-year vesting period, where the award remains at risk based on a performance underpin and during which the participant must remain employed by the Company; then the vested shares are subject to a further two-year holding period. The Deferred Share Plan is, therefore, a six-year incentive plan with a strong link to the long-term shareholder experience.

The rationale for the Incentive Plan is to:

- provide a simple cohesive design, that incentivises delivery of the Integrated Strategic Business Plan;
- recognise that the Integrated Strategic Business Plan will evolve, therefore providing the Board with the opportunity to manage the incentives annually to ensure the evolution continues to be incentivised;
- reward participants as shareholders by the build-up of a long-term retained shareholding; and
- ensure a focus on long-term sustainable performance through the deferral in equity. Based on the maximum incentive opportunity of 325%, half of the Bonus Banking Plan opportunity (100%) and all of the Deferred Share Plan opportunity (125%) is treated as deferred equity.

When considering the review of the Policy, the Committee was mindful of UK Corporate Governance Code provisions which say that the Committee should address issues of clarity, risk, predictability, proportionality and alignment with culture. The Policy is now well established and broadly a roll-forward of the existing Policy meaning that the operation, and therefore outcomes, will be proportionate and predictable. Risk continues to be managed through the operation of a broad suite of performance measures and targets, the use of deferral, holding periods and malus and clawback provisions and the close interaction with the Audit and Risk & CSR Committees. Our drive for better clarity means we have endeavoured to present our Directors’ Remuneration Policy in a simple and succinct manner to be as transparent as possible. The tailored design of our incentives has helped the Chief Executive to change ways of working and QinetiQ’s culture.

Executive Directors’ Remuneration Policy

The Executive Directors’ Remuneration Policy is put forward for approval at the AGM on 14 July 2020. This Policy covers the three year period commencing 1 April 2020 and complies with the Large and Medium-sized Companies and Groups (Accounting and Reports) (Amendment) Regulations 2013.

Element	Purpose and link to strategy	Operation and performance measures	Maximum opportunity
Base salary	To attract and retain the talent needed to lead our business.	An Executive Director’s base salary is set on appointment and reviewed annually or when there is a change in position or responsibility. When determining an appropriate level of salary, the Committee considers: • general salary rises to employees; • remuneration practices within the Group; • any change in scope, role and responsibilities; • the general performance of the Group; • the experience of the relevant Director; • the economic environment; and • when the Committee determines a benchmarking exercise is appropriate, salaries paid by the companies in the comparator groups used. Individuals who are recruited or promoted to the Board may, on occasion, have their salaries set below the targeted policy level until they become established in their role. In such cases subsequent increases in salary may be higher than the general rises for employees until the target positioning is achieved.	Typically, the base salaries of Executive Directors in post at the start of the policy period and who remain in the same role throughout the policy period will be increased by a similar percentage to the average annual percentage increase in salaries of all other employees in the Group. The exceptions to this rule may be where: • an individual is below market level and a decision is taken to increase base pay to reflect proven competence in the role; or • there is a material increase in scope or responsibility to the Executive Director’s role. The Committee ensures that maximum salary levels are positioned in line with companies of a similar size to QinetiQ and validated against other companies in the industry, so that they are competitive against the market. The Committee intends to review the comparators periodically and may add or remove companies from the group as it considers appropriate. Any changes to the comparator groups will be set out in the section headed Implementation of Remuneration Policy, in the following financial year.
Pension	To ensure that Executive Directors’ total remuneration remains attractive and competitive.	The Company provides a pension contribution allowance in line with practice relative to its comparators to enable the Company to recruit and retain Executive Directors with the experience and expertise to deliver the Group’s strategy. This allowance will be a non-consolidated allowance and will not impact any incentive calculations.	The maximum policy pension contribution allowance is 20% for existing Executive Directors; however, any new Executive Directors will have a maximum contribution which is aligned with the maximum level available to all UK employees (which is currently 10.5% of salary). The Company will set out in the section headed Implementation of Remuneration Policy, in the following financial year the pension contributions for that year for each of the Executive Directors.

Element	Purpose and link to strategy	Operation and performance measures	Maximum opportunity
Benefits	To ensure that Executive Directors’ total remuneration remains attractive and competitive.	Benefits include car allowance, health insurance, life assurance, income protection and membership of the Group’s employee Share Incentive Plan which is open to all UK employees (the Executive Directors will also be eligible to participate in any other all employee plan operated by the Company from time to time). The Committee recognises the need to maintain suitable flexibility in the benefits provided to ensure it is able to support the objective of attracting and retaining personnel in order to deliver the Group strategy. Additional benefits may therefore be offered such as relocation allowances on recruitment.	The maximum is the cost of providing the relevant benefits.

Incentive Plan	The Incentive Plan provides a significant incentive to the Executive Directors linked to the achievement of delivering targets that are closely aligned with the Company’s strategy and the creation of value for shareholders.
	
	In particular, the Incentive Plan supports the Company’s objectives by:
	• Allowing the setting of annual targets based on the business’s strategic objectives at that time, meaning that a wider range of performance metrics can be used that are relevant and suitably stretching whilst also providing sufficient incentive linked to potential to be achievable; and
	• Providing substantial long-term deferral in shares and ongoing adjustment by requiring a threshold level of performance to be achieved during the deferral period. Amounts deferred in shares are also forfeitable on a Director’s voluntary cessation of employment which provides an effective lock-in.
		An award under the Incentive Plan is subject to satisfying financial and strategic/operational performance/personal performance conditions and targets initially measured over a period of one financial year.
		
		A minimum of 50% of the incentive shall be based on financial performance measures.
		
		The Incentive Plan consists of two parts –
		• **Bonus Banking Plan.** Annual Company contributions are earned based on the satisfaction of the performance conditions. Contributions will be made for three years with payments made out of the plan over four years. 50% of the value of a participant’s bonus account will be paid out annually in cash after the pool has been marked to the Company’s share price and credited with dividend equivalents. 50% of the unpaid balance of a participant’s bonus account is at risk of annual forfeiture based on the achievement of a financial performance threshold with 100% of the residual value paid out at the end of year four as shares.
		• **Deferred Share Plan.** Deferred conditional share-based element initially awarded based on the satisfaction of pre-grant annual performance assessment. The conditional award vests after three years, subject to continued service, where the initial award remains at risk based on the achievement of a performance underpin, then a further two-year holding period is applied. A minimum 50% (Remuneration Committee has discretion to increase subject to performance) of the initial award is at risk of forfeiture for three years.
		
		Malus and clawback provisions apply to the Incentive Plan.
		
		The Committee will normally provide dividend equivalents on vested shares under the Incentive Plan.
		
		In exceptional circumstances the Committee retains the discretion to:
		• Change the performance measures and targets and the weighting attached to the performance measures and targets part way through a performance year if there is a significant and material event which causes the Committee to believe the original measures, weightings and targets are no longer appropriate; for example adjustments for:
		  • Acquisitions and disposals;
		  • Restructuring costs;
		  • Business structure changes;
		  • Restated corporate allocations;
		  • Foreign currency exchange rates; and
		  • Board approved budget adjustments.
		• Make downward or upward adjustments to the amount of incentive earned resulting from the application of the performance measures, if the Committee believe that the incentive outcomes are not a fair and accurate reflection of business performance.
		• Adjust the grant share price for incentive awards if there were to be a substantial Company share price fall, if it were to be appropriate to exercise such discretion at a future time.
		
		Any adjustments or discretion applied by the Committee will be fully disclosed in the following year’s Directors’ Remuneration Report.
			Maximum 325% of salary.
			
			Bonus Banking Plan
			Maximum = 200% of salary.
			Target = 80%–120% of salary.
			Threshold = 0% of salary.
			
			Deferred Share Plan
			Maximum = 125% of salary.
			Target = 30%-75% of salary.
			Threshold = 0% of salary.
			
			–

Element	Purpose and link to strategy	Operation and performance measures	Maximum opportunity
Minimum shareholding requirements – during and after employment	To align Executive Directors' interests with those of shareholders through the build-up and retention of a personal holding in QinetiQ shares.	Executives have five years to accumulate the required shareholding. 300% of base salary for the CEO. 200% of base salary for other Executive Directors. Executive Directors will have a post-employment shareholding requirement of 100% of salary for the first year post cessation, then 50% of salary for the second year post cessation of employment.	The Committee has adopted formal shareholding requirements to encourage the Executive Directors to build up over a five-year period and then subsequently hold a shareholding equivalent to a percentage of base salary. Adherence to these guidelines is a condition of continued participation in the equity incentive arrangements. This policy ensures that the interests of Executive Directors and those of shareholders are closely aligned. Executive Directors are required to retain 50% of the post-tax amount of vested shares from the Company incentive plans until the minimum shareholding requirement is met and maintained. Vested awards under the Deferred Share Plan element of the Incentive Plan must be retained by the participant for two-years post-vesting to further support the post-employment shareholding requirement where an Executive Director leaves the Company. The Committee retains the discretion to increase the shareholding requirements.

Notes to the policy table

Performance measures and targets

The performance measures and targets, financial and non-financial, are determined annually based on the Company's strategy. Targets are set taking into account a variety of inputs including but not limited to the strategic plan, the annual plan and brokers' forecasts. The measures and, where possible, the targets will be disclosed after the end of the relevant financial year in that year's remuneration report.

Remuneration policy for all employees

All employees of QinetiQ are eligible to base salary, benefits and pension.

The link between performance and reward cascades down from the Executive incentive plans with the Leadership and Business Development Communities typically invited to participate in the Company's formal annual incentive arrangements. All other employees may receive a discretionary bonus based on Company and individual performance. Participation in long-term incentive plans is available to Executive Directors, Global Leadership Team members, Leadership Community and selected other employees. Share ownership is further encouraged via the QinetiQ Share Incentive Plan.

Recruitment policy

The Company's principle is that the remuneration of any new recruit will be assessed in line with the same principles as for the current Executive Directors (with the exception of pension allowance). The Committee is mindful that it wishes to avoid paying more than it considers necessary to secure a preferred candidate with the appropriate calibre and experience needed for the role. In setting the remuneration for new recruits, the Committee will have regard to guidelines and shareholder sentiment regarding one-off or enhanced short-term or long-term incentive payments as well as giving consideration for the appropriateness of any award. The Company's detailed policy when setting remuneration for the appointment of new Directors is summarised in the table below:

Remuneration element	Recruitment policy
Salary, benefits and pension	These will be set in line with the policy for existing Executive Directors, except for pension allowance which will be capped at 10.5% of salary.
Incentive Plan	Maximum annual participation will be set in line with the Company's policy for existing Executive Directors and will not exceed 325% of salary. Depending on the timing of the appointment, the performance measures and targets used for the first award may differ to that of the existing Executive Directors. If different, they will be explained in detail in the following relevant Directors' Remuneration Report.
Maximum variable remuneration	The maximum variable remuneration which may be granted is 325% of salary (excluding any buy-outs).

Directors' remuneration report continued

Remuneration element	Recruitment policy
'Buy Out' of incentives forfeited on cessation of employment	Where the Committee determines that the individual circumstances of recruitment justifies the provision of a buyout, the equivalent value of any incentives that will be forfeited on cessation of an Executive Director's previous employment will be calculated taking into account the following: • The proportion of the performance period completed on the date of the Executive Director's cessation of employment; • The performance conditions attached to the vesting of these incentives and the likelihood of them being satisfied; and • Any other terms and condition having a material effect on their value ('Lapsed value'). The Committee may then grant up to the same value as the lapsed value, where possible, under the Company's incentive plan. To the extent that it was not possible or practical to provide the buyout within the terms of the Company's existing incentive plan, a bespoke arrangement would be used. To be clear, the value of any buy-out will be limited to the value being forfeit from the previous employer.
Relocation policies	In instances where the new Executive Director is required to relocate or spend significant time away from their normal residence, the Company may provide one-off compensation to reflect the cost of relocation for the Executive Director. The level of the relocation package will be assessed on a case-by-case basis but will take into consideration any cost of living differences/housing allowance and schooling.

Where an existing employee is promoted to the Board, the policy set out above would apply from the date of promotion but there would be no retrospective application of the policy in relation to subsisting incentive awards or remuneration arrangements.

Service contracts

Current Executive Directors have open-ended service contracts terminable by the Company immediately without notice upon breach by the individual or by the Company giving to the individual 12 months' written notice or, at its discretion, payment in lieu of salary, pension and benefits only during that notice. The payment in lieu of notice may be made in staged payments and may either reduce or cease completely where the departing Executive Director gains new employment. The Executive Director may terminate his contract by giving the Company 12 months' written notice. Contracts for new Executive Directors will be limited to 12 months' notice by both parties (or payment in lieu of notice in respect of the Company).

Copies of the service contracts are available for inspection at the Company's registered address.

The Chairman and the non-Executive Directors have letters of appointment and are appointed for initial fixed terms of three years, subject to re-election at each Annual General Meeting. The Chairman and the Non-Executive Directors are not entitled to any payment in lieu of notice or any compensation for loss of office.

The dates of the service contracts, letters of appointment and unexpired term periods are set out in the Annual Report on Remuneration (page 106).

Loss of office and change of control policy

When determining any loss of office payment for a departing Executive Director the Committee will always seek to minimise the cost to the Company while complying with the contractual terms and seeking to reflect the circumstances in place at the time. The Committee reserves the right to make additional payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation); or by way of settlement or compromise of any claim arising in connection with the termination of an Executive Director's office or employment.

Remuneration element	Approach	Application of Committee discretion
Salary and benefits	In the event of termination by the Company, there will be no compensation for loss of office due to misconduct or normal resignation. In other circumstances, Executive Directors may be entitled to receive compensation for loss of office which will be a maximum of 12 months' salary. Such payments will be equivalent to the monthly salary and benefits that the Executive Director would have received if still in employment with the Company. These will be paid over the notice period. Executive Directors will be expected to mitigate their loss within a twelve month period of their departure from the Company.	The Company has discretion to make a lump sum payment in lieu.
Pension	Pension contributions or payments in lieu of pension contribution will be made during the notice period.	The Company has discretion to make a lump sum payment in lieu.
Bonus Banking Plan (on cessation of employment)	For the year of cessation Good leavers: Performance conditions will be measured at the measurement date. The Company incentive contribution will normally be pro-rated for the period worked during the financial year. Other leavers: No Company incentive contribution payable for year of cessation. Deferred balances in participant's Plan Account Good leavers: The balance in the participants' Plan account will be payable on cessation of employment. Other leavers: The balance in the Participants' Plan account will be forfeited on cessation of employment.	For the year of cessation Discretion: the Remuneration Committee has the following elements of discretion: • To determine that an Executive Director is a good leaver. It is the Committee's intention to use this discretion only in circumstances where there is an appropriate business case which will be explained in full to shareholders; and • To determine whether to pro-rate the Company incentive contribution to time. The Remuneration Committee's normal policy is that it will pro-rate for time. It is the Remuneration Committee's intention to use discretion to not pro-rate only in circumstances where there is an appropriate business case which will be explained in full to shareholders. Deferred balances in participant's Plan Account Discretion: the Remuneration Committee has the following elements of discretion: • To determine that an Executive Director is a good leaver. It is the Remuneration Committee's intention to only use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders; • To determine whether the payment of the balance of the participant's Plan Account should be in cash or shares or a combination of both; • To determine whether to pro-rate the balance of the participant's Plan Account payable on cessation. The Committee's normal policy is that it will not pro-rate. The Remuneration Committee will determine whether to pro-rate based on the circumstances of the Executive Director's departure.
Bonus Banking Plan (on change of control)	For the year of the change of control Performance conditions will be measured at the date of the change of control. The Company incentive contribution will normally be pro-rated to the date of the change of control. Deferred balances in participant's Plan Account The balance in the participant's Plan Account will be payable on the change of control.	For the year of the change of control Discretion: the Remuneration Committee has the following element of discretion: • To pro-rate the Company bonus contribution to time. The Remuneration Committee's normal policy is that it will pro-rate for time. It is the Remuneration Committee's intention to only use discretion to not to time pro-rate in circumstances where there is an appropriate business case which will be explained in full to shareholders. Deferred balances in participant's Plan Account Discretion: the Remuneration Committee has the following elements of discretion: • To determine whether the payment of the balance of the participant's Plan Account should be in cash or shares or a combination of both; • To determine whether to pro-rate the balance of the participant's Plan Account payable on change of control. The Committee's normal policy is that it will not pro-rate. The Remuneration Committee will determine whether to pro-rate based on the circumstances of change of control.

Remuneration element	Approach	Application of Committee discretion
Deferred Share Plan (on cessation of employment)	For the year of cessation Good leavers: Performance conditions will be measured at the measurement date. The Deferred Share Plan award will normally be pro-rated for the period worked. Other leavers: No Deferred Share Plan award for year of cessation. Subsisting awards Good leavers: Deferred Share Plan awards will vest on their original vesting dates and remain subject to the sale restrictions. Other leavers: Deferred Share Plan awards will be forfeited on cessation of employment.	For the year of cessation Discretion: the Remuneration Committee has the following elements of discretion:– • To determine that an Executive Director is a good leaver. It is the Committee's intention to only use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders; • To determine whether to pro-rate the Company award to time. The Remuneration Committee's normal policy is that it will pro-rate for time. It is the Remuneration Committee's intention to only use discretion to not pro-rate in circumstances where there is an appropriate business case which will be explained in full to shareholders; and • To determine whether the Deferred Share Plan award will vest on the date of cessation or the original vesting date. The Remuneration Committee will make its determination based amongst other factors on the reason for the cessation of employment; and to determine whether to provide the Deferred Share Plan award in the form of cash or shares. Subsisting Deferred Share Plan awards Discretion: the Remuneration Committee has the following elements of discretion: • To determine that an Executive Director is a good leaver. It is the Remuneration Committee's intention to only use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders; • To determine whether to pro-rate the Deferred Share Plan award to the date of cessation. The Committee's normal policy is that it will pro-rate. It is the Remuneration Committee's intention to only use discretion to not pro-rate in circumstances where there is an appropriate business case which will be explained in full to shareholders; To determine whether the Deferred Share Plan award will vest on the date of cessation or the original vesting date. The Remuneration Committee will make its determination based amongst other factors on the reason for the cessation of employment.
Deferred Share Plan (on change of control)	For the year of the change of control Performance conditions will be measured at the date of the change of control and the award will normally be pro-rated to the date of the change of control. Subsisting awards The awards will vest on the date of the change of control and the sale restrictions will fall away.	For the year of the change of control Discretion: the Remuneration Committee has the following element of discretion: • To determine whether to pro-rate the Deferred Share Plan award to time. The Remuneration Committee's normal policy is that it will pro-rate for time. It is the Remuneration Committee's intention to only use discretion to not pro-rate in circumstances where there is an appropriate business case which will be explained in full to shareholders. Subsisting Deferred Share Plan awards Discretion: the Remuneration Committee has the following elements of discretion: • To determine whether the satisfaction of Deferred Share Plan awards should be in cash or shares or a combination of both; and • To determine whether to pro-rate Deferred Share Plan awards on change of control. The Committee's normal policy is that it will not pro-rate. The Remuneration Committee will determine whether to pro-rate based on the circumstances of change of control.
Other contractual obligations	There are no other contractual provisions other than those set out above agreed that could impact quantum of the payment.	None.

A 'good leaver' is a person whose cessation of employment is for one of the following reasons:

- Death; Ill-health; Injury or disability; Redundancy; Retirement; Employing company ceasing to be a Group company; Transfer of employment to a company which is not a Group company; and where the person is designated a good leaver at the discretion of the Committee (as described above).

A person who ceases employment in circumstances other than those set out above is designated as an 'other leaver'.

Malus and clawback

Malus provisions apply to both the Bonus Banking Plan and the Deferred Share Plan. Malus is the adjustment of Bonus Banking Plan contributions or the balance in a participant's account or unvested Deferred Share Plan contingent awards because of the occurrence of one or more circumstances. The adjustment may result in the value being reduced to nil.

Clawback is the recovery of payments made under the Bonus Banking Plan or vested Deferred Share Plan awards as a result of the occurrence of one or more circumstances. Clawback may apply to all or part of a participant's payment under the Deferred Share Plan or Deferred Share Plan award and may be effected, among other means, by requiring the transfer of shares, payment of cash or reduction of awards or bonuses.

The circumstances in which malus and clawback could apply are as follows:

- Discovery of a material misstatement resulting in an adjustment in the audited accounts of the Group or any Group company;
- The assessment of any performance condition or condition in respect of a payment or award under the Incentive Plan was based on error, or inaccurate or misleading information;
- The discovery that any information used to determine the Bonus Banking Plan or Deferred Share Plan award was based on error, or inaccurate or misleading information;
- Action or conduct of a participant which amounts to fraud or gross misconduct; or
- Events or the behaviour of a participant have led to the censure of a Group company by a regulatory authority or have had a significant detrimental impact on the reputation of any Group company provided that the Board is satisfied that the relevant participant was responsible for the censure or reputational damage and that the censure or reputational damage is attributable to the participant.

The following table sets out the periods during which malus and clawback may be effected.

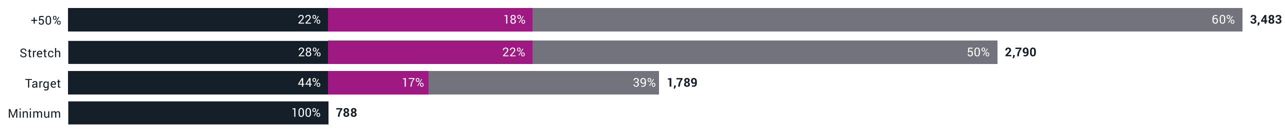
	Bonus Banking Plan	Deferred Share Plan
Malus	Up to the date of a payment.	Any time prior to vesting.
Clawback	Three years post the date of any payment.	Three years from the date of vesting.

Pay and performance scenario analysis

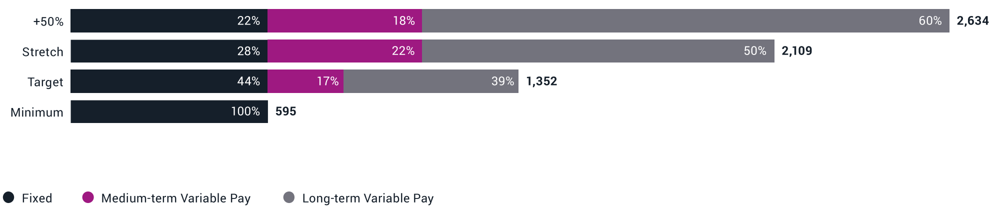
The proposed Directors' Remuneration Policy is illustrated in the following charts showing what each Director could expect to receive in FY21 under different performance scenarios, based on the following definitions:

Scenario	Fixed	Linked to performance
50% share price appreciation		Stretch plus 50% share price growth (on 50% of BBP and 100% of DSP)
Stretch		100% of Bonus Banking Plan opportunity (200% of salary) 100% of Deferred Share Plan (125% of salary)
Target		50% of Bonus Banking Plan opportunity (100% of salary) 50% of Deferred Share Plan (62.5% of salary)
Minimum		No variable pay

CEO (£'000)



CFO (£'000)



Directors' remuneration report continued

Policy for the Chairman and the Non-executive Directors

The Company's policy when setting fees for the appointment of the Group Chairman and new Non-executive Directors is to apply the policy which applies to current incumbents.

Element	Purpose and link to strategy	Operation and performance measures	Maximum opportunity
Chairman and Non-executive Directors			
Fees	To attract and retain Non-executive Directors of the calibre required to assist the Company in setting and delivering its strategy.	The Executive Directors and the Group Chairman are responsible for setting the remuneration of the Non-executive Directors. The Board, minus the Chairman, is responsible for setting the Chairman's fees. Non-executive Directors are paid an annual fee and additional fees for chairmanship of Committees and any other additional duties, and the Company retains the flexibility to pay fees for the membership of Committees. The Chairman does not receive any additional fees for membership of Committees. Fees are reviewed annually based on equivalent roles in the comparator group used to review salaries paid to the Executive Directors. An additional fee is payable to those Non-executive Directors attending meetings outside of their country of residence. Non-executive Directors and the Group Chairman do not participate in any variable remuneration or benefits arrangements. Fee levels may be increased on a temporary basis for a significant increase in time commitments (e.g. assuming an executive position for an interim period)	The fees for Non-executive Directors and the Group Chairman are broadly set at a competitive level against the comparator group. In general the level of fee increase for the Non-executive Directors and the Group Chairman will be set taking account of any change in responsibility and the general rise in salaries across employees. The Company will pay reasonable expenses incurred by the Non-executive Directors and Group Chairman and may settle any tax incurred in relation to these.

Consideration of shareholder and employee views

The Chair of the Committee and the Group Chairman consult with key shareholders on remuneration matters from time to time, and particularly in seeking views on the Directors' Remuneration Policy in preparation for the triennial vote at the AGM. Any concerns expressed by shareholders are reported to the Committee and these are taken into account as the Committee develops and implements its Policy. Any comments received from shareholders outside these consultation exercises are also reported to the Committee, and the Committee takes account of general views on remuneration expressed by shareholders and their representative bodies.

The Remuneration Committee is grateful for shareholders' comments and engagement during the Directors' Remuneration Policy consultation process. At the end of this process, the Remuneration Committee was pleased that the majority of the shareholders consulted expressed support for the Policy being operated for a further three years.

The Committee has not formally consulted with employees in forming this Policy. However, Our Employee Engagement Group (EEG), representing all of our UK employees, is deeply engaged across the company to provide an employee voice at the table on all relevant issues, including remuneration (regular interactions are held with the Group Chairman, Remuneration Committee Chair, CEO and the Group HR Director). The company takes the views of employees very seriously and we monitor this through a quarterly survey using a market-leading dynamic tool (Peakon).

The Committee is cognisant of employment conditions when determining Executive Director pay. In particular, the annual salary increase available to the rest of the workforce is an important factor in determining any salary increase for the Executive Directors. The Committee reviews the CEO pay ratio and considers it in the broader context of pay trends within the business.