

REMUNERATION POLICY

This section of the report sets out the Company's policy on the remuneration of Directors which will be put to a binding shareholder vote at the 2021 AGM. Subject to shareholder approval, the Policy will take effect from the date of the 2021 AGM and is intended to apply for three years.

The Company policy on remuneration is designed to ensure that Executive Directors earn sufficient remuneration to be motivated to achieve our strategy with the addition of appropriate incentives, aligned to our vision and strategic objectives, that encourage enhanced performance without excessive risk.

The Committee annually reviews market practices and levels of remuneration for directors in similar roles within companies of comparable size and complexity. This review considers remuneration within our wider workforce, pay increases awarded and bonus levels generally in the Group, with the aim that we reward all employees fairly according to their role, performance, the economic environment and the Group's financial performance.

The Policy has been tested against the six factors listed in Provision 40 of the UK Corporate Governance Code:

- **Clarity** – the Committee has made alterations to the Remuneration Policy to make it clearer, including a simplified annual bonus structure. The elements of the Remuneration Policy were described clearly to investors during the consultation process, to the workforce during the engagement with the Group Employee Forum and are set out in this report.
- **Simplicity** – remuneration structures have been simplified. All structures are as simple as possible whilst providing a strong link between reward and performance and avoiding reward for failure
- **Risk** – the Remuneration Policy has been designed to discourage inappropriate risk taking including a balance between short-term and long-term elements, as well as bonus deferral, recovery and withholding provisions, in addition to in-employment and post-cessation shareholding requirements. To avoid conflicts of interest, Committee members are required to disclose any conflicts or potential conflicts ahead of Committee meetings. No Executive Director or other member of management is present when their own remuneration is under discussion.
- **Predictability** – elements of the Policy are subject to caps and dilution limits. An illustration of pay levels for different levels of performance are shown in the scenario charts in the notes to the Policy table. The Committee has the discretion to adjust the formulaic outcomes of the incentive arrangements if the outcome is considered inappropriate.
- **Proportionality** – There is a broadly equal balance between fixed pay and incentives and there is also a broadly equal balance between short-term and long-term incentives, reflecting the importance of both short-term and long-term performance.

- **Alignment to culture** – Henry Boot's distinctive company culture has been taken into consideration with the incentivisation of the Executive Directors to continue to develop the Group with our people at the forefront of our strategies, whilst formulating a Policy to drive sustainable long term growth.

Changes to the Directors' Remuneration Policy

The following changes have been made to the Remuneration Policy.

Base Salary

The salary cap which stated that salaries would be no higher than the median rate of the upper quartile of the FTSE Small Cap, has been removed to simplify the Policy and because this limit is significantly higher than any salaries that we intend to pay during the Policy period.

Pension

Pension rates for Executives will be aligned with the wider workforce. Any new Executive Director appointed will have a pension rate in line with the wider workforce, currently 8% of salary. This represents the amount that most employees are able to contribute to the pension and that it is equitable for the Executive Directors to participate. The current pension rate for the CEO is 8% of salary. The GFD's pension contribution will be retained at the current 20% of salary rate until 31 December 2021 and then reduce to the workforce rate. This reduction will take place a year earlier than the recommended date in the Investment Association guidance.

Annual Bonus

In line with market best practice, we are introducing compulsory bonus deferral, one third of the bonus earned will be invested into shares and deferred for three years. In addition, a formal discretionary override has been introduced into the Policy and recovery and withholding provisions have been broadened to include reputational damage and corporate failure. To simplify the bonus scheme, the reference to an "exceptional maximum bonus" opportunity (120% of salary) has been removed and, instead, is now described as the "maximum" which is what, in reality, the exceptional maximum has always been (i.e. it has been the point at the top of the performance range at which the maximum bonus has been payable which has in the past, and will continue to be in the future, reflective of exceptional performance).

The pay-out schedule is now based on a sliding scale between threshold and maximum, in line with general market practice.

The specific split between financial and non-financial measures (80:20) has been removed to allow for greater flexibility. The majority of the bonus will continue to be based on financial measures. We would like some flexibility in the Policy to have a slightly higher weighting on non-financial strategic and in due course ESG measures, and so propose that the Policy should state simply that a majority of the bonus should be based on financial measures.

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Long-Term Incentive Plan (LTIP)

The maximum limit has been reduced from 200% of salary to 175% of salary.

The previous Policy stated that the performance measures for the LTIP would include EPS, ROCE and TSR with the weightings for any measure not exceeding 50%. We have removed the stipulation of which particular measures should be used and instead stated that these will be linked to the business strategy, albeit at this stage there is no intention to move away from this mix of measures.

To strengthen the alignment of interest between shareholders and executives, to the extent awards vest the value of dividends payable over the vesting period will be added, usually in the form of an additional award of shares.

As per the annual bonus, the recovery and withholding provisions have been broadened and the discretion to adjust the formulaic outcome has been formally introduced.

Shareholding Requirements

In line with market best practice, we have increased the shareholding requirement for the GFD from 150% to 200% of salary so that both Executives must build up a shareholding equivalent to 200% of salary.

A post-cessation shareholding requirement has been introduced. Any Executive Director leaving the Company will be required to retain the lower of the shares held at cessation of employment and shares to the value of 200% of salary for a period of two years. Market purchased shares by the individual will be excluded from this requirement and the requirement will only apply to LTIP awards made after the May 2021 AGM.

Recruitment and leaver treatment

The Policy regarding buyout awards and payments for loss of office have been updated to reflect latest market practice.

Performance conditions will be applied on a like-for-like basis on any buyout awards and awards will resemble forfeited arrangements as far as is practicable.

Leavers will no longer be able to receive lump sum payments if a contract is terminated. Payments for loss of office will be phased over the notice period and subject to mitigation and offset against earnings elsewhere.

Non-executive Directors

We are committed to a culture that promotes equality and diversity. As a result, the requirement for Non-executive Directors to build up a shareholding to the value of 50% of the base fee, has been removed from the Policy to ensure that no potential Non-executive Director candidates are unable to take the role due to this requirement. However, we will continue to encourage Non-executive Directors' to build up a meaningful shareholding in Henry Boot where possible.

POLICY TABLE

Element	Purpose and link to strategy	Operation	Opportunity	Performance measures
Salary	Core element of the Executive Directors' fixed remuneration reflecting the role, experience and set in part by reference to comparable companies in the FTSE and appropriate relativities within the broader executive team.	<p>The Committee reviews base salaries annually, taking into consideration:</p> <ul style="list-style-type: none"> i. the value of the individual to the Group, their skills, experience and performance; ii. pay increase levels in the Group and more generally in the marketplace; and iii. the Group profitability and prevailing market conditions. 	<p>Salary increases will normally be in line with the workforce average. The Committee will consider any increase above this level very carefully in the following circumstances, for example:</p> <ul style="list-style-type: none"> i. relevant commercial factors; ii. increasing scope and responsibility; iii. promotional increases; and iv. falling below market positioning. 	None.
Benefits	These are provided on a market competitive basis to assist in recruiting and retaining Executive Directors.	<p>Executive Directors currently receive:</p> <ul style="list-style-type: none"> i. a car allowance; ii. private health insurance; iii. permanent health insurance; iv. death in service cover; and v. the offer of participation in the SAYE Scheme. <p>The Committee reviews the level of benefit provision from time to time and has the flexibility to add or remove benefits to reflect changes in market practice or the operational needs of the Group.</p> <p>The cost of providing benefits is borne by the Company and varies from time to time.</p>	Set by reference to normal market practice.	None.
Pension	To provide a contribution towards retirement income.	<p>Executive Directors are eligible for membership of the Henry Boot PLC Group Stakeholder Pension Plan (defined contribution pension scheme) or a cash supplement in lieu of this.</p> <p>The Henry Boot Staff Pension & Life Assurance Scheme (defined benefit pension scheme) is closed to new members, however internal promotees to an Executive Director will retain any existing membership.</p>	<p>The current CEO and any new Executive Director will receive a pension contribution in line with the rate applying to the majority of the workforce, currently 8% of salary.</p> <p>The current GFD will receive a pension contribution of 20% of basic salary, which will continue until 31 December 2021 and then this will reduce to be in line with the contribution rate for the majority of employees.</p>	None.

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Element	Purpose and link to strategy	Operation	Opportunity	Performance measures
Annual bonus	To incentivise the delivery of financial performance, operational targets and individual objectives over the financial year.	<p>Targets are reviewed annually and any payment is determined by the Committee after the year end based on targets set for the financial year.</p> <p>Two thirds of the annual bonus will be paid in cash, one third of the bonus earned will be invested into shares and deferred for three years (during which time the shares cannot be sold). Malus and clawback provisions apply.</p>	The maximum bonus opportunity is 120% of salary.	<p>The majority of the bonus will be based on financial metrics.</p> <p>No more than 10% of the maximum bonus opportunity will payout for threshold performance and no more than 50% for target performance. Payout between threshold, target and maximum will be calculated on a straight-line basis.</p> <p>The Remuneration Committee has the discretion to adjust the formulaic outcome of the bonus if they believe the outcome does not accurately reflect business performance.</p>
Long-Term Incentive Plan	The Long-Term Incentive Plan provides a clear and strong link between the remuneration of Executive Directors and the creation of value for shareholders by rewarding the Executive Directors for achieving longer-term objectives aligned closely to the business strategy and shareholders' interests.	<p>Conditional share awards are granted annually to Executive Directors.</p> <p>Awards vest after the third anniversary of grant subject to performance conditions and continued service.</p> <p>To the extent awards vest, the value of dividends payable over the vesting period will be added, usually in the form of an additional award of shares.</p> <p>After awards vest, subject to selling sufficient shares to pay tax, shares must be held for a further two years.</p> <p>Malus and clawback conditions apply.</p>	<p>Up to a maximum of 175% of salary in any year.</p> <p>Award levels would not be increased above 125% of salary in the case of the CEO and 100% of salary in the case of the GFD without first consulting with our major shareholders.</p>	<p>Performance conditions and targets will be set each year linked to business KPIs in line with the strategy, or a measure of total shareholder return.</p> <p>The Remuneration Committee has the discretion to adjust the formulaic outcome of the bonus if they believe the outcome does not accurately reflect business performance.</p> <p>No more than 25% of the award will vest for threshold performance.</p>

Element	Purpose and link to strategy	Operation	Opportunity	Performance measures
Shareholding guidelines	Direct share ownership by Executive Directors aligns their long-term interests to those of shareholders.	<p>During employment Executive Directors are required to build and maintain a shareholding equivalent to 200% of base salary. Executive Directors are expected to retain at least 50% of any LTIP awards or deferred bonus awards until holdings reach the required level.</p> <p>Post-cessation of employment Any Executive Director leaving the Company will be expected to retain the lower of the shares held at cessation of employment and shares to the value of 200% of salary, for a period of at least two years. Market purchased shares purchased by the individual will be excluded from this requirement and the requirement only applies to awards made after the May 2021 AGM.</p>	Not applicable.	None.
Non-executive Director fees	Fee levels are set in order to recruit and retain high calibre Non-executive Directors with the relevant experience required to achieve success for the Company and its shareholders.	<p>The fees of the Chairman are determined by the Committee and the fees of the Non-executive Directors are determined by the Board (minus the Non-executive Directors).</p> <p>Non-executive Directors are not eligible to participate in any of the Company's share schemes, incentive arrangements or pension schemes.</p>	<p>Non-executive Directors are paid a basic fee.</p> <p>Additional fees may be paid for chairing committees or taking additional roles such as the Senior Independent Director or Director responsible for the Employee Voice.</p> <p>Non-executive Directors are encouraged, but not required, to build up a shareholding in Henry Boot.</p>	None.

Notes to the Policy table

Explanation of the performance measures chosen

The Committee has the discretion in exceptional circumstances to change performance measures and targets part-way through a performance year if there is a significant event which causes the Committee to believe the original measures and targets are no longer a fair and accurate measure of business performance.

Malus and clawback

The Committee has discretion to claw back awards made under the annual bonus plan and LTIP in the event of a material misstatement in the audited consolidated accounts of the Company, a material error in assessing any performance condition, employee misconduct, serious reputational damage or corporate failure. In these circumstances the Committee has discretion to reduce or cancel deferred awards, or require the participant to repay some or all of the value delivered from a bonus or LTIP awards, at any time up to the third anniversary of vesting of LTIP awards or payment of annual bonus.

Statement of consideration of employment conditions elsewhere in the Group

Differences in policy from the wider employee group

Henry Boot PLC aims to provide a remuneration package that is market competitive, complies with statutory requirements and is applied fairly and equitably across employees of the Group. Where possible, the Group operates the same core remuneration principles for employees as it does for Executive Directors.

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These are:

- We remunerate fairly for each role with regard to the marketplace, consistency across comparable roles and consistency across each company within the Group.
- We remunerate people at a level that the Group has the ability to meet which is sufficient to retain and motivate our people to achieve our shared long-term goals.

Bonus arrangements across the Group normally have a similar structure to the Executive Directors in that the main target measure is Group profitability. The level of bonus potential varies across all Group companies.

Participation in the LTIP Scheme is extended to the senior management beyond the Executive Directors at the discretion of the Board. In line with the Non-executive Directors, share ownership amongst the wider workforce is encouraged but there is no formal requirement to hold shares. Furthermore, we also encourage long-term employee engagement through the offer of a SAYE Share Scheme and CSOP Scheme to all eligible employees.

Employee engagement

Employee engagement on remuneration matters by the Committee is conducted through the Group Employee Forum (GEF). The GEF consists of employees from across the businesses and provides an opportunity for employees to voice their views and raise concerns. The GEF is attended by the designated Non-executive Director and Remuneration Committee Chair, Gerald Jennings, who acts as a conduit between the Board and the workforce, and ensures a two-way dialogue. During the Remuneration Policy consultation, two meetings were held with the GEF to discuss the overall remuneration approach and the Executive Directors' objectives, the latter meeting included our advisors, Korn Ferry, which the GEF members welcomed both in terms of understanding the background to the remuneration decisions and the potential outcomes, alongside strategic rationale. In addition, every December, the Head of HR presents a report to the Committee summarising matters relating to the wider workforce, relative levels of pay between companies in the Group, changes to other working conditions and changes within the make-up of the workforce. Information from both the GEF and the Head of HR report is considered when setting and implementing the Directors' Remuneration Policy. You can read more about the work of the GEF on page 86.

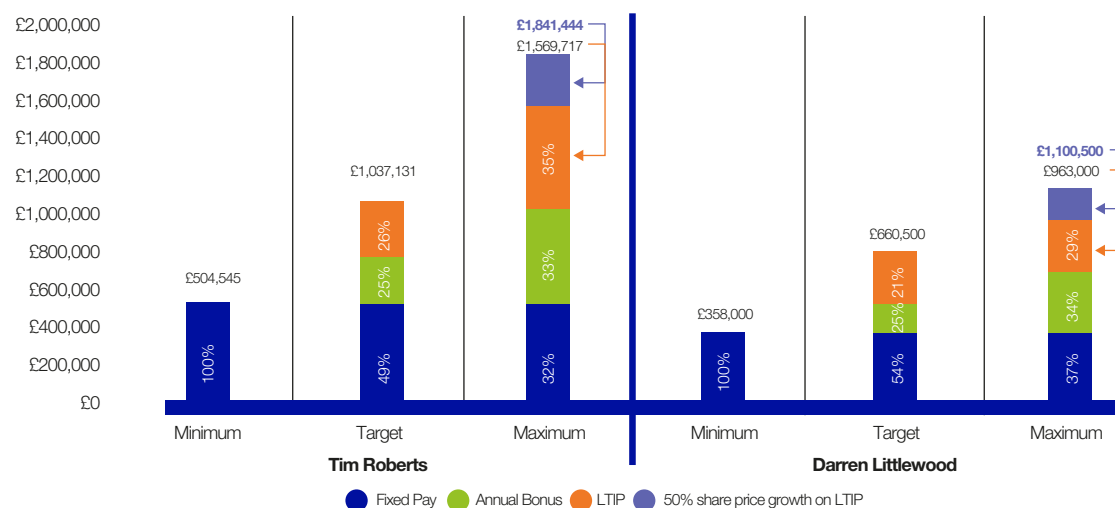
Consideration of Shareholder Views.

In 2020, the Remuneration Committee consulted with major family and institutional shareholders and proxy advisers to seek their views on the proposed Remuneration Policy and implementation. During the consultation, the major shareholders were supportive of our proposed changes to the Remuneration Policy and so we have proceeded with the planned changes. In relation to the operation of the Policy for FY21, shareholders were also broadly supportive. However, as noted in the Chairman's Statement, following shareholder feedback we staggered the salary increase for the GFD over two years. The Committee is thankful for shareholders' participation in this consultation process. The Remuneration Committee will continue to monitor developments in corporate governance and market practice to ensure that the Policy and its implementation continues to be in line with best practice.

Illustration of the application of the Remuneration Policy

The graph shows total remuneration under the new Policy, illustrating the minimum pay (fixed pay), on-target pay and maximum pay (assumptions are set out in the table below).

Minimum	Fixed pay comprised of base pay as of 1 January 2021, benefits paid in FY20, and pension contributions in FY21.
Target	Fixed pay and 50% of maximum bonus and LTIP opportunity.
Maximum	Fixed pay and maximum payout under the bonus and LTIP. This scenario also includes an additional element illustrating the impact of 50% share price growth on the LTIP.



Recruitment Remuneration Policy

This table sets out the Company's policy on recruitment of new Executive Directors for each element of the remuneration package. Non-executive Directors are recruited on an initial three-year term and receive a fee but no other benefits.

Remuneration element	Policy on recruitment
Base salary	The Committee will typically offer a salary in line with the Policy whilst also considering the experience, ability to implement Group strategy, and the wider economic climate and pay and conditions throughout the Group, in order to facilitate the hiring of candidates of the appropriate calibre required to implement the Group's strategy.
Benefits	The Committee will offer benefits in line with the Policy for existing Executive Directors; however, the Committee has the flexibility to consider other benefits from time to time, including relocation expenses.
Pension	Contribution levels will be set in line with the Company policy.
Bonus	The Committee will offer the ability to earn a bonus in line with the Policy (maximum 120% of base salary). Bonus opportunities will be pro-rated for new employees that join during the year.
LTIPs	The Committee will offer LTIPs in line with the Policy in the year of joining.
Buyouts	The Committee's policy on "buying out" existing incentives granted by the Executive's previous employer will depend on the process of recruitment and be negotiated on a case-by-case basis. The Committee may make an award in order to "buy out" previous incentives but it will only be made if it is considered necessary to attract the right candidate and there will not be a presumption in favour of doing so. The award will in any event be no larger than the award forfeited and will resemble the arrangements forfeited as far as applicable and performance conditions will apply on a like-for-like basis.
Internal appointees	Any remuneration awards previously granted to an internal appointee to the Board will continue on their original terms. In the same way, if an appointee is accruing benefits in the Henry Boot Staff Pension and Life Assurance Scheme these will continue as before.

Payment for the loss of office policy

The table below sets out the policy on exit payments. Treatment of different elements under the Policy may vary depending on whether the Executive is classified as a "good" or a "bad" leaver. "Good leaver" status occurs upon the cessation of employment for a compassionate reason, such as death in service; ill health; injury; disability; retirement; redundancy or for any other reason determined by the Committee.

The Committee will ensure that a consistent approach to exit payments is adopted and there is no reward for poor performance and any liability to the Group is minimised/mitigated in all areas. Where a compromise agreement is required, the Committee would consider contributing to the reasonable costs of legal and other expenses relating to the termination of employment and pay reasonable amounts to settle potential claims.

Remuneration element	
Base salary/fees and benefits	Base salary/fees and benefits will be paid over the notice period subject to mitigation. Compensation will be phased over the notice period. If the Executive finds a new role prior to the end of the notice period, payments will be offset against earnings from the new role.
Pension/salary in lieu of pension	Pension contributions and any payments in lieu of pension will be provided over the notice period.
Bonus	For a good leaver, any bonus payment would be at the discretion of the Committee and would be pro-rated to the time employed in the year that employment ceases. Any payment would be paid at the same time as other Directors, subject to the original performance criteria deferral and malus and clawback.
LTIP Awards	<p>It is normal for awards to lapse on cessation of employment unless the Company and Committee agree that the Executive is a good leaver. Good leavers will be treated in accordance with the rules of the LTIP scheme which has been approved by shareholders. Their awards are prorated for the proportion of the performance period that has elapsed. Any prorated shares vest at the normal vesting date and are subject to the same performance conditions as other LTIP award holders. The Committee retains discretion to allow vesting at the time of cessation of employment on a prorated basis. Good leavers will be subject to the clauses in the LTIP Scheme related to holding periods, malus and clawback.</p> <p>In the event of a change of control, Directors affected will be treated in accordance with the rules of the LTIP Scheme. Any early vesting as a consequence of a change of control would be based on the Committee's assessment of the performance conditions and would take into account the vesting period that has elapsed at the time of the change of control.</p>

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Service contracts

Tim Roberts and Darren Littlewood each have a one-year rolling service agreement in accordance with our policy on Directors' contracts.

Termination of these arrangements would therefore be subject to their contractual terms and conditions that require a notice period of one year from either party. Contractual compensation in the event of early termination provides for compensation of basic salary, pension and benefits for the notice period, which would be payable on a phased monthly basis.

Non-executive Directors have letters of appointment and their appointment and subsequent reappointment is subject to approval by shareholders. Non-executive Director appointments are typically for three years, subject to a maximum of three terms totalling nine years; however, they may be terminated without compensation at any time.

Policy on external appointments

The Company recognises that Executive Directors may be invited to become Non-executive Directors of other companies and that this can help broaden the skills and experience of a Director. Executive Directors are permitted to accept one external appointment with the approval of the Board. Any remuneration earned from such appointments is retained by the Executive.

