

# Grafton Group plc

## Remuneration Committee Terms of Reference

### 1. Membership

Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chairman of the Remuneration Committee. Appointments to the committee shall be for a period of up to three years, which may be extended for two further three year periods provided the director still meets the criteria for membership.

The Committee shall be made up of at least three members, all of whom shall be independent non-executive directors.

1.1 Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chairman of the Board, and external advisers may be invited to attend for all or part of any meeting as and when appropriate.

1.2 The Board shall appoint the Committee Chairman who shall be an independent non-executive director. Before appointment as Chairman of the Committee, the appointee should have served on a remuneration committee for at least 12 months. In the absence of the Committee Chairman, the remaining members present shall elect one of themselves to chair the meeting. The Chairman of the Board shall not be Chairman of the Committee.

### 2. Secretary

2.1. The Company Secretary or the HR Director shall act individually or jointly as the Secretary of the Committee.

### 3. Quorum

3.1 The quorum necessary for the transaction of business shall be two members. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee. All or any members of the Committee may participate in a meeting by teleconference or video conference. A person so participating is deemed to be present in person at the meeting and shall be counted as a quorum accordingly.

### 4. Meetings

4.1 The Committee shall meet at least four times a year.

## **5. Notice of Meetings**

- 5.1 Meetings of the Committee shall be convened at the request of the Chairman and the Board.
- 5.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee and any other person required to attend generally no later than five working days before the date of the meeting, or such shorter period as agreed by the Chairman of the Committee from time to time. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

## **6. Minutes of Meetings**

- 6.1 The Secretary shall minute the proceedings and resolutions of all Committee meetings.
- 6.2 Minutes of Committee meetings shall be circulated to all members of the Board.

## **7. Annual General Meeting**

- 7.1 The Chairman of the Committee shall attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities.

## **8. Duties**

The Committee shall:

- 8.1 have responsibility for determining the policy for executive director remuneration and for setting remuneration for the chair, executive directors and senior management including the Company Secretary. It shall review workforce remuneration and related policies and the alignment of incentives and rewards with culture, taking these into account when setting the policy for executive director remuneration. The remuneration of non-executive directors should be determined by the Articles of Association or, alternatively, by the Board.
- 8.2 in determining such policy, take into account all factors which it deems necessary. The objective of such policy shall be to ensure that members of the executive management of the company are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the company;

- 8.3 review the ongoing appropriateness and relevance of the remuneration policy, taking into account the following principles and provisions of The 2018 Corporate Governance Code which states that:
- (a) remuneration policies and practices should be designed to support strategy and promote long-term sustainable success;
  - (b) executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long-term strategy;
  - (c) a formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established.
  - (d) no director should be involved in deciding their own remuneration outcome.
  - (e) Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.
  - (f) remuneration schemes and policies should enable the use of discretion to override formulaic outcomes. They should also include provisions that would enable the company to recover and/or withhold sums or share awards, and specify the circumstances in which it would be appropriate to do so; and
  - (g) when determining executive director remuneration policy and practices, address clarity, simplicity, risk, predictability, proportionality and alignment of culture.
- 8.4 agree and approve contracts of employment and service agreements for new executive directors and any variations to contracts of employment and service agreements with executive directors. All contracts of employment and any variations thereto shall be documented in writing and approved by the Committee and should take into account the provisions of The 2018 UK Corporate Governance Code that notice or contract periods should be one year or less, that compensation commitments in directors' terms of appointment do not reward poor performance, and that the Committee should be robust in reducing compensation to reflect departing director's obligations to mitigate loss;
- 8.5 review workforce remuneration and related policies, and the alignment of incentives and rewards with culture, taking these into account when setting the policy for executive director remuneration;

- 8.6 approve the design of, and determine targets for, any performance related pay schemes operated by the company and approve the total annual payments made under such schemes;
- 8.7 review the design of all share incentive plans and long-term incentive schemes for approval by the Board and shareholders. For any such plans, determine each year whether awards will be made, and if so, the overall amount of such awards, the individual awards to executive directors and other senior executives and the performance targets to be used, taking into account the provisions of The 2018 UK Corporate Governance Code that (i) remuneration schemes should promote long-term shareholdings by executive directors that support alignment with long term shareholder interests; (ii) that share awards granted for this purpose should be released for sale on a phased basis and be subject to a total vesting and holding period of five years or more and that (iii) the Remuneration Committee should develop a formal policy for post-employment shareholding requirements encompassing both unvested and vested shares.
- 8.8 determine the policy for, and scope of, pension arrangements for each executive director and such other senior executives as it is designated to consider, taking into consideration the following provisions of the 2018 UK Corporate Governance Code that:
- (a) only basic salary should be pensionable;
  - (b) pension contribution rates for executive directors, or payments in lieu, should be aligned with those available to the workforce, and
  - (c) the requirement that pension consequences and associated costs of basic salary increases and any other changes in pensionable remuneration, or contribution rates, particularly for directors close to retirement, should be carefully considered when compared with workforce arrangements;
- 8.9 ensure that contractual terms on termination, and any payments made, are fair to the individual, and the company, that failure is not rewarded and that the duty to mitigate loss is fully recognised;
- 8.10 in determining such packages and arrangements, give due regard to any relevant legal requirements, the principles, provisions and recommendations in The 2018 UK Corporate Governance Code, the Listing Rules of the London Stock Exchange and associated guidance;
- 8.11 review and note annually the remuneration trends across the company or Group;
- 8.12 oversee any major changes in employee benefits structures throughout the company or Group;

- 8.13 ensure that all provisions regarding disclosure of remuneration including pensions is transparent;
- 8.14 be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Committee and in obtaining reliable, up-to-date information about remuneration in other companies. The Committee shall have full authority to commission any reports or surveys which it deems necessary to help it fulfil its obligations. The Committee shall ensure that where remuneration consultants are appointed, this should be the responsibility of the Committee and the consultants should be identified in the annual report alongside a statement about any other connection it has with the company or individual directors and
- 8.15 exercise independent judgment when evaluating the advice of external third parties and when receiving views from executive directors and senior management.

## **9. Reporting Responsibilities**

- 9.1 The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 9.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 9.3 The Committee shall produce an annual report on Director's remuneration policy and practices which will form part of the company's Annual Report and ensure each year that it is put to a non-binding vote of shareholders at the AGM. The report of the Committee should, in line with the provisions of The 2018 UK Combined Code include:
  - an explanation of the strategic rationale for executive directors' remuneration policies, structures and any performance metrics;
  - reasons why the remuneration is appropriate using internal and external measures, including pay ratios and pay gaps;
  - a description, with examples, of how the remuneration committee has addressed the factors in Provision 40 of the 2018 UK Corporate Governance Code;
  - whether the remuneration policy operated as intended in terms of company performance and quantum, and, if not, what changes are necessary;
  - what engagement has taken place with shareholders and the impact this has had on remuneration policy and outcomes;
  - what engagement with the workforce has taken place to explain how executive remuneration aligns with wider company pay policy; and

- to what extent discretion has been applied to remuneration outcomes and the reasons why.

## **10. Authority**

- 10.1 The Committee is authorised by the Board to seek any information it requires from any employee of the company in order to perform its duties.
- 10.2 In connection with its duties the Committee is authorised by the Board to obtain, at the company's expense, any outside legal or other professional advice.

## **11. Other**

- 11.1 The Committee shall periodically review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

Approved on 29 October 2018