

Directors' 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 2018 AGM. Subject to shareholder approval, the policy will take effect from the date of the 2018 AGM.

Consultation with shareholders

Whilst there has been no formal contact with shareholders regarding the Remuneration Policy, it is in line with that which operated up to the end of 2017. In order to further align the Remuneration Policy to Company performance and shareholder interests, several changes are proposed as follows.

The Committee has agreed to cap the maximum basic salary for Executive Directors to be no greater than the median rate of the upper quartile of the FTSE SmallCap Index for the comparable position held.

The Committee has also proposed one change to the annual bonus policy, which is to give increased weighting to personal performance objectives when assessing the performance criteria for annual bonuses. Instead of 10% of normal bonus opportunity being based on individual measures, this is increased to 20%. This change is intended to increase the focus on personal performance objectives.

Historically, equal weighting has been given to the three performance conditions relating to the LTIP awards; EPS, ROCE and TSR. We propose to amend the policy to allow flexibility to vary the weightings if thought appropriate, provided that none of the criteria exceeds 50%. In reality we have no current intention to change the weighting from 33.3% for each measure.

Lastly, in line with investor guidelines the Committee has also proposed to increase the Executive Directors minimum shareholding requirements from 100% to 200% for the Chief Executive Officer and 150% for the Group Finance Director.

No other changes are proposed to the current Remuneration Policy.

Linking remuneration with strategy

To align the remuneration of our Executive Directors with the Group's key strategic objective of maximising long-term shareholder value, we reflect the following priorities within our remuneration principles.

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| Alignment with strategy | <ul style="list-style-type: none">— Stretching profit and therefore earnings per share performance targets are key drivers to long-term shareholder value growth. These are important performance elements of the annual bonus and long-term share incentive plans. |
| Alignment with shareholders | <ul style="list-style-type: none">— A significant part of the potential remuneration package is delivered in shares, and the performance measures to achieve that element of remuneration incorporate growth in earnings, Company capital and shareholder returns, aligning shareholder interests to remuneration.— There are minimum shareholding criteria for Directors. |
| Attracting and retaining the right people | <ul style="list-style-type: none">— Our Remuneration Policy is designed to attract, motivate and retain a high-quality group of talented individuals over the long-term who are incentivised to deliver the strategy through a clear link between reward and performance without taking excessive risks.— We seek to ensure that Director and senior management salaries are set in relation to their peers and other available opportunities and by reference to the wider workforce. At the same time, we ensure that we do not pay more than is necessary or reward failure. |

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, once again aligned to strategy, 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.

Policy table

| Element | Purpose and link to strategy | Operation | Opportunity | Performance measures and changes |
|-----------------|--|---|--|---|
| Salary | <p>Core element of the Executive Directors' fixed remuneration reflecting the role, experience and comparable companies in the FTSE.</p> <p>The Committee also considers whether the basic salary is a competitive benchmark to recruit and retain executive talent.</p> | <p>The Committee reviews base salaries annually, taking into consideration:</p> <ol style="list-style-type: none"> the value of the individual to the Group, their skills, experience and performance; pay increase levels in the Group and more generally in the marketplace; and the Group organisation profitability and prevailing market conditions. that maximum salary is to be no greater than the median rate of the upper quartile of the FTSE SmallCap Index for the comparable position held. | <p>Salary increases will normally be in line with the wider Group. The Committee will consider any increase out of line with this very carefully. Higher increases may be awarded in exceptional circumstances. These could include:</p> <ol style="list-style-type: none"> relevant commercial factors; increasing scope and responsibility; promotional increases; and falling below market positioning. | <p>Maximum salary to be no greater than median rate of the upper quartile of the FTSE SmallCap Index for the comparable position held.</p> <p>Individual performance is one of the considerations in setting salary levels.</p> |
| Benefits | <p>These are provided on a market competitive basis to assist in recruiting and retaining Executive Directors</p> | <p>Executive Directors currently receive:</p> <ol style="list-style-type: none"> a car allowance; private health insurance; permanent health insurance; death in service cover; and 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 Committee considers that the level of benefits provided is market consistent.</p> <p>The cost of providing benefits is borne by the Company and varies from time to time.</p> | <p>None.</p> |

Directors' Remuneration Policy continued

| Element | Purpose and link to strategy | Operation | Opportunity | Performance measures and changes |
|---------------------|--|---|---|---|
| Pensions | To help retain and recruit Executive Directors, ensuring an adequate retirement income. | Executive Directors are eligible for membership of the defined contribution scheme or a cash supplement in lieu of this. The Group's defined benefit scheme is now closed to new members, however internal promotees to an Executive Director will retain their membership. | An accrued pension based upon pensionable salary within the defined benefit scheme. Up to 20% of basic salary under the defined contribution scheme or in respect of salary above the cap within the defined benefit scheme may be paid. | None. |
| Annual bonus | To incentivise the delivery of financial performance, operational targets and individual objectives. | Targets are reviewed annually and any payment is determined by the Committee after the year end based on targets set for the financial year. Bonus is paid in cash. There is no deferral of bonus; however, malus and clawback provisions exist in line with those which apply to the LTIP scheme. 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. | Normal bonus opportunity is 100% of salary. For exceptional performance, bonus opportunity increases to 120% of salary. | Challenging but achievable operational and individual targets are determined at the beginning of the financial year. For normal bonus opportunity, 80% is based on financial performance, 20% on other individual measures. Financial measure: 90%–120% of target profit. Bonus at 90% of target equates to 10% of salary; at 120% of target bonus equates to 80%. For exceptional financial performance over 120% and up to 150% of target, a pro rata 20% of salary may be payable, capping total bonus at 120% of salary. |

| Element | Purpose and link to strategy | Operation | Opportunity | Performance measures and changes |
|---------------------------------|---|--|---|---|
| Long Term Incentive Plan | The intention of the Henry Boot Long Term Incentive Plan is to provide 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 shareholders' interests. | The Committee typically awards LTIP shares annually to Executive Directors equal to 100% of basic salary. Awards vest after the third anniversary of grant subject to performance conditions. The rules include a holding period of two years post vesting, and malus and clawback conditions. 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. | The rules permit grants of up to a maximum of 200% of salary to be made on an annual basis. The Remuneration Committee has no current intention of increasing the annual grant of 100%. | <p>Vesting of the awards will normally occur provided that the participant is still employed by the Group at the end of the vesting period (subject to good leaver provisions) and that the performance targets for the three-year performance period have been satisfied. 25% of the LTIP vests for the achievement of threshold performance.</p> <p>The LTIP will be subject to a range of performance conditions including EPS, ROCE and TSR with weightings for each condition of no more than 50%, which the Committee believes align the interests of Executives and shareholders.</p> <p>If these LTIP performance conditions are achieved, the Committee must be satisfied that, in its opinion, the underlying financial performance of the Group over the measurement period has been satisfactory.</p> |
| Shareholding guidelines | The Committee believes that Executive Directors' share ownership aligns their interests to those of shareholders generally. | The Chief Executive Officer is required to have acquired and retained a shareholding of Henry Boot PLC shares to the value of 200% of his base salary and the Group Finance Director to the value of 150% of his base salary. Executive Directors are expected to retain 50% of any LTIP awards until holdings reach the required level. | Not applicable. | <p>The shareholding requirements have been increased from 100% of base salary.</p> <p>John Sutcliffe satisfies the shareholding criteria of 200%.</p> <p>Darren Littlewood has been given the new requirement of 150% from the committee. The satisfaction date has been extended by 2 years, to 31 December 2020.</p> |

Directors’ Remuneration Policy continued

| Element | Purpose and link to strategy | Operation | Opportunity | Performance measures and changes |
|------------------------------------|--|---|--|---|
| Non-executive Director fees | The Board aims 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 following a recommendation from both the Chief Executive Officer and the Chairman.</p> <p>Non-executive Directors are not eligible to participate in any of the Company’s share schemes, incentive arrangements or pension schemes.</p> | Non-executive Directors are paid a basic fee with additional fees for chairing committees. By the third anniversary of their appointment to the Board, Non-executive Directors are required to have acquired and retained a holding of Henry Boot shares equivalent to the value of 50% of their base fee. | None. However, individual performance is considered on an annual basis by the Chairman and Chief Executive Officer. |

Notes to the policy table

Explanation of the performance measures chosen

The Committee selects performance measures that are aligned to the strategy of the Group. The Committee sets stretching performance targets each year for the annual bonus and long-term incentive awards. These stretching performance targets consider a number of financial and personal measures which may, from time to time, include business plans, strategy, past performance and market conditions. Where the measure used is relative shareholder return there will be no payment for performance that is below the median in comparison to the comparator group.

The performance targets used to determine annual bonus reflect the key financial objectives of the Company and any award is for delivery against these measures in line with the policy on page 86. As noted, the Committee has changed the current annual bonus policy to increase the weighting for individual objectives to 20% from 10%.

The LTIP performance targets reflect the long-term strategic objective to maximise shareholder value and therefore align the interests of the shareholders with the Executives. The LTIP measures are both financial and shareholder return based and are:

- growth in earnings per share above inflation – a key driver in creating shareholder value is to provide a dividend which grows faster than the rate of inflation;
- ROCE – a key driver to long-term growth in shareholder value is the ability to retain funds to invest in our business;
- Relative Total Shareholder Return – this measures the Company’s Total Shareholder Return performance relative to a group of listed peers. This aligns the interests of management and shareholders and measures the extent to which shareholders and the market consider that the Company strategy is appropriate and is being implemented and articulated well by the Executives; and
- the Committee retains the discretion to adjust the performance targets and measures where it considers that it is appropriate to do so: for example, in the case of a major change in the structure of the business and to assess performance on a fair and consistent basis from year to year.

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, or employee misconduct. In these circumstances the Committee has discretion to reduce or cancel 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 second anniversary of vesting of LTIP awards or payment of annual bonus.

‘Good leaver’ status

‘Good leaver’ status occurs upon the cessation of employment for a good reason, such reasons being defined as death; ill health; injury; disability; retirement; redundancy or for any other reason if the Committee so decides.

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. In all cases, with the exception of remuneration determined by statutory regulation, the Group operates the same core remuneration principles for employees as it does for Executive Directors.

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 at the discretion of the Board. In line with Executive Directors, share ownership 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 to all employees and a CSOP Scheme to middle management.

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 salary but no other benefits.

| Remuneration element | Policy on recruitment |
|----------------------------|--|
| Base salary | The Committee will typically offer a salary in line with the policy on page 85 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 for existing Executive Directors. |
| Bonus | The Committee will offer the ability to earn a bonus in line with the policy on page 86 in line with other Executive Directors of up to 120% of base salary. |
| LTIPS | The Committee will offer LTIPS in line with the policy on page 87, and in line with other Executive Directors. |
| 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. |
| 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 that appointee is accruing benefits in the Henry Boot Defined Benefit Pension Scheme, these will continue as before on membership to the Board and will be reported on in future Remuneration Policy documents. |

Directors’ Remuneration Policy continued

Payment for the loss of office policy

The table below sets out the policy on exit payments.

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. However, the Company has the discretion to make a lump sum payment of the base salary/fees and benefits on termination, payable during the notice period. |
| Pension/salary in lieu of pension | Pension contributions and any salary payments in lieu of pension will be provided over the notice period. The Company has the discretion to make a lump sum payment on termination equal to the value of the pension benefit. |
| Bonus | Any bonus payment would be at the discretion of the Committee and would be prorated to the time employed in the year that employment ceases and would be subject to “good leaver” status. Any payment would be subject to the same performance criteria, including those related to malus and clawback, and paid at the same time as other Directors. |
| LTIPS | 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 leaver status is defined in the LTIP rules and is usually conferred in the following situations: death, disability, redundancy, retirement or at the discretion of the Remuneration Committee. 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 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. In the event of a change of control, Directors affected will be treated in accordance with the rules of the LTIP Scheme. If the Committee is satisfied the performance targets have been achieved, subject to early vesting because of the change of control, the awards would vest with time prorating applied. There is also provision within the rules to exchange LTIP shares for awards in the acquiring company, if that is applicable. |

Service contracts

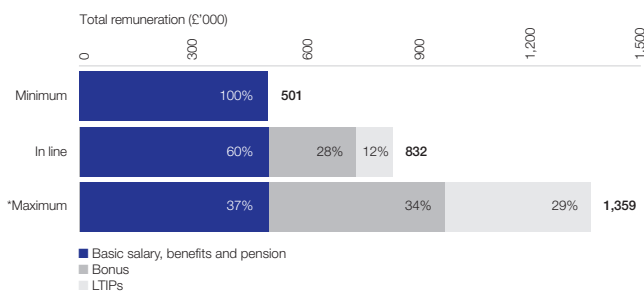
John Sutcliffe and Darren Littlewood each have a one-year rolling service agreement in accordance with our policy on Directors’ contracts. Termination of these arrangements would therefore be subject to their contractual terms and conditions which require a notice period of one year to the Director. Contractual compensation in the event of early termination provides for compensation of basic salary, pension and benefits for the notice period.

Non-executive Directors, including the Chairman, do not have service contracts. All 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; however, they may be terminated without compensation at any time.

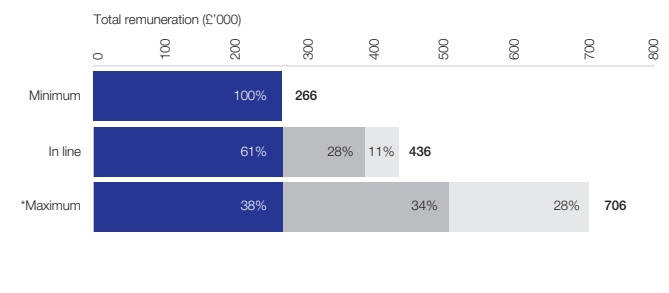
Illustration of the application of the remuneration policy

The graphs show the split of remuneration between fixed pay (base salary, pension and benefits) and variable pay (bonus and LTIPS), assuming the following bases: minimum remuneration (basic package); remuneration receivable in line with target, or threshold in the case of LTIPS; performance expectations; and the maximum remuneration possible (though not allowing for any share price appreciation).

John Sutcliffe



Darren Littlewood



* Assumes personal targets and full bonus for exceptional performance at 150% of target, i.e. 120% bonus.

| | Fixed pay | Bonus | LTIP |
|---|---|--|--|
| Minimum remuneration | Fixed pay consists of basic salary. Pension at 20% of basic salary either as a pension contribution or payment in lieu. | Nil | Nil |
| Remuneration for performance in line with expectations | Benefits as disclosed in the single figure calculation on page 77. | Assumes 50% of personal targets are achieved (10% of salary) and profit before tax is on target (50% of salary) giving total of 60% of salary. | Achieving the base targets for the LTIP measures of EPS, ROCE and Total Shareholder Return equates to a 25% award under the LTIP Scheme (25% of salary). |
| Remuneration for maximum performance | | Assumes all personal targets are met and profit before tax is equal to or greater than 150% of target which will give rise to a bonus of 120% of salary. | Achieving the most stretching measures under the three LTIP performance measures of EPS, ROCE and Total Shareholder Return equates to a 100% award under the LTIP Scheme (100% of salary). |

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 only permitted to accept external appointments with the approval of the Board. Any remuneration earned from such appointments is retained by the Executive. Currently, no Executive Director holds a remunerated external appointment.

Statement of consideration of employment conditions elsewhere in the Group

In December each year, the Group Head of Human Resources presents a report to the Board 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.

The Committee takes this into consideration when setting policy for the Executive Directors. Although employees are not actively consulted on Executive remuneration, the Company, through the Human Resources department, is in continual two-way discussion on remuneration issues and this body of information informs the annual remuneration discussions for both Executives and staff.

Approved by the Board and signed on its behalf by

JOANNE LAKE
Chairman of the Remuneration Committee
20 April 2018