Letter from the Chair

Octavia Morley
Chair of the Remuneration Committee

KEY THEMES

- Strategic alignment of pay to KPIs
- Management changes
- FY2019 remuneration outcomes
- Policy review:
  – Shareholder engagement
- FY2020 Directors' remuneration
- UK Corporate Governance Code 2018

DEAR SHAREHOLDER

I am pleased to introduce this Directors' Remuneration Report for the year ended 31 October 2019. It sets out the new Remuneration Policy being proposed at our AGM on 24 March 2020 to apply for the three years from the date it is approved by shareholders, how Executive and Non-Executive Directors were paid in FY2019, decisions the Remuneration Committee took during the year and how pay links to Company strategy.

Significant management changes during the year necessitated very careful consideration of individual remuneration arrangements.

In addition, we reviewed the current Remuneration Policy as it reached the end of its three-year life.

I would like to thank the members of the Committee, Company management who supported the Committee, and major shareholders with whom we have consulted extensively, for their time and support during a very busy period.

Remuneration philosophy

– Promote the long-term success of the Company

– Reward performance

– Simplicity and transparency.

The Remuneration Committee continues to ensure the Remuneration Policy and its implementation support the business strategy and long-term value creation and are aligned to the objectives of shareholders and other stakeholders.

COMMITTEE OVERVIEW
Committee members

Octavia Morley
Chair

Lucinda Bell

Iain Ferguson
Committee member from 1 November 2019

Sharon Flood
Committee member from 1 November 2019

Louise Hardy

Leslie Van de Walle

Committee membership and meetings

The Committee is made up of Octavia Morley (Chair), Lucinda Bell, Iain Ferguson (joined 1 November 2019), Sharon Flood (joined 1 November 2019), Louise Hardy and Leslie Van de Walle.

The Committee met five times during the year (details of attendance are set out on page 68). There were also a number of informal meetings between Committee members regarding appointments and departures made during the year.

The Chief Executive and Group HR Director may attend Committee meetings by invitation.

The Committee is supported by Kevin Maguire, General Counsel and Company Secretary.

DIRECTORS' REMUNERATION REPORT CONTINUED

LETTER FROM THE CHAIR CONTINUED

Strategic alignment of pay

In setting the metrics and structure of short and long-term Executive and senior management incentives, the Committee closely considers strategic business priorities. In 2019 the business had a strategy focused on delivering shareholder returns, prioritising cash and dividends, maximising value in the land portfolio and improving operational efficiency.

We responded to this by introducing cash management (free cash flow) to the bonus measures. We also introduced Health and Safety as a bonus measure reflecting the continued emphasis on this throughout the business.

As such, the annual bonus for FY2019 was structured with profit before tax (PBT) being retained for 40% of the bonus and the introduction of cash management for 40%. The continued importance of customer service and quality was reflected through 10% of the bonus, with the remaining 10% focussed on health and safety performance.

Within our 2019 Long Term Incentive Plan (LTIP), we introduced a third measure based on earnings before interest and taxes (EBIT) margin to accompany return on capital employed (ROCE) and earnings per share (EPS) used in the prior year.

With a new Executive Leadership Team and updated strategy for 2020, the Committee has considered this carefully in setting schemes for 2020 and beyond ensuring that each measure contributes towards our strategy.

Building on measures used in FY2019, FY2020 bonus and LTIP schemes retain a mix of measures which underpin this strategy and provide a balance between profit, operational efficiency and sustainability through ROCE, cash management and forward sales, with safety and people reflected through customer service and health and safety elements.

Incentive changes this year include changing the safety measure to focus on Safety, Health and Environment (SHE) leadership, maintaining but reducing a cash management measure and increasing targets for customer service. As the updated strategy is implemented the Committee will continue to review measures and targets.

ACTIVITY DURING THE YEAR

- Considered the LTIP measures and targets for FY2019–2022
- Reviewed AGM outcomes and considered appropriate actions
- Reviewed the Remuneration Policy for shareholder approval at the 2020 AGM
- Engaged with shareholders on 2019 remuneration matters and in relation to the new Policy
- Undertook a review of wider employee pay structures and considered these in the context of Executive Director structures
- Determined the interim remuneration arrangements for the Interim Chief Executive, Chris Tinker, and the revised fee for the Chairman to cover the period where the Company was without a permanent Chief Executive
- Confirmed leaving arrangements for the former Chairman, Chief Executive and the Chairman of Major Projects and Strategic Partnerships
- Determined joining packages and contractual arrangements for the new Chairman, Chief Executive, Group Finance Director and Chief Operating Officer.

LOOKING AHEAD

The Committee's key aims for the next year are to:

- Ensure remuneration arrangements complement the onboarding of the new Executive Leadership Team
- Set senior management incentive plan measures and targets for 2020 with changes reflecting the operating environment and strategic emphasis
- Consider and implement evolving governance requirements including a review of wider employee remuneration and related policies
- Continue to develop our approach to engaging employees on remuneration matters.

New Remuneration Policy

Our 2017 Remuneration Policy is due for its triennial review and has accommodated significant changes to the business, strategy and leadership during that time.

The Committee undertook a thorough review of the Policy taking into account a new Executive Leadership Team, updated strategy and wider remuneration developments.

The Committee specifically considered whether any alternative incentive structures (not previously included) could work better. At the end of this process, the Committee concluded that the current structure remains appropriate for the next policy period albeit with a number of changes to specific elements.

We are satisfied that we have the necessary flexibility within the Policy to ensure the remuneration structure aligns to, and rewards achievement of, delivery of the business strategy and shareholder returns.

The key changes to the Policy are as follows:

- Increasing the level of bonus payable for target performance from 50% of salary, to 50% of the maximum (i.e. 62.5% of salary for a 125% of salary maximum)
- Reducing the pension policy maximum from 15% to the rate applying to the majority of the workforce (currently 6% of salary) other than for the current Chief Executive, whose pension maximum will remain 10% of salary
- Introducing a post cessation of employment shareholding requirement of 200% of salary (or the actual shareholding on cessation, if lower) for two years post-employment
- For the LTIP, reducing the 'exceptional' grant limit from 300% to 200% of base salary, as this level of headroom has not been found to be necessary
- Introducing a formal discretionary override to both incentive plans and extending the recovery period from two to three years.

The change to target bonus level creates a more market-normal target bonus structure, particularly where (in our case) the bonus maximum is 25% lower than sector market practice. In addition, this change allows us to align the target proportion within the Executive Director's scheme with the wider employee schemes. Setting stretching targets will continue to be a major focus of the Committee's work.

We have also made significant progress over the last three years reducing Executive Director pension benefits. With the exception of our Chief Executive whose arrangements were negotiated in early 2019, all current and new Executive Directors have pensions aligned with the workforce (currently 6%).

FY2019 remuneration outcomes

Bonus scheme

The accompanying Strategic Report sets out the challenging market and trading experience during FY2019. As a result, threshold performance against the stretching targets set was not achieved other than for customer service and quality.

	Performance	Bonus
PBT (40%)	£102.7m	Nil
Free cash flow (40%)	£157.9m	Nil
H&S (10%)	372 AIIR	Nil
Customers (10%)	90.2%	3.5%

Whilst we are pleased with the improved customer service and quality performance, we are disappointed that we were unable to achieve the targeted reduction in the Annual Injury Incidence Rate and the overall financial performance of the business.

Long Term Incentive Plan (LTIP)

The 2017 LTIP award measured performance over the three years to 31 October 2019 performing as follows:

	Target	FY2017–FY2019	Vesting
PBT (50%)	6%	-9.4%	Nil
ROCE (50%)	27%	22.1%	Nil

As such, the 2017 LTIP award will lapse in full. The Committee is satisfied that incentive outcomes represent the overall performance; there has been no use of discretion.

Management changes and consequent remuneration

Leaving arrangements determined during the year:

- Patrick Bergin, Chief Executive
- Chris Tinker, Chairman of Major Projects and Strategic Partnerships
- Stephen Stone, Chairman (former Chief Executive).

Joining arrangements determined during the year:

- Peter Truscott, Chief Executive
- Duncan Cooper, Group Finance Director
- Tom Nicholson, Chief Operating Officer
- Iain Ferguson, Chairman.

Contractual payments and remuneration approach for interim roles and leavers

Leaving arrangements for Patrick Bergin and Chris Tinker included only salary and benefits, and treatment of outstanding incentive plan entitlements in accordance with the plan rules and Policy (see pages 96 to 97).

For the period between the departure of the previous Chief Executive, Patrick Bergin, on 26 March 2019, and Peter Truscott taking up of the role on 9 September 2019, Chris Tinker was appointed as Interim Chief Executive, supported by the Chairman, Stephen Stone.

The Committee determined that, for the duration of this interim role, Chris Tinker's salary should increase from £311,212 to £430,000 and receive a pro rata higher bonus opportunity of 125% over the interim period instead his normal 100% of salary.

Chris' salary reverted to the original rate when Peter Truscott joined the business on 9 September 2019, and Chris moved to a four-day week on 1 October 2019 with a pro rated salary accordingly.

Previously we reported that Stephen Stone's fee would reduce from £300,000 to £225,000 upon moving to Non-Executive Chairman on 1 April 2019. However, in light of the additional time commitment in supporting the Interim Chief Executive, Stephen Stone's fee reduced to £260,000 and then stepped down to £225,000 from 9 September 2019, on Peter Truscott joining as Chief Executive.

Stephen Stone stepped down as Non-Executive Chairman on 31 October 2019. In line with the rules of the bonus plan and Policy, he was permitted to retain legacy deferred bonus shares awarded in relation to the 2016 and 2017 bonuses earned for the time he was Chief Executive. His 2017 LTIP was also retained, but lapsed due to financial performance (see page 92).

Remuneration approach for new joiners

Peter Truscott

We announced on 26 March 2019 that Peter Truscott would join the business as Chief Executive. He started on 9 September 2019. Peter's remuneration comprises:

- Salary of £650,000
- Pension contribution of 10% of base salary
- Bonus of up to 125% of base salary
- LTIP award of 150% of base salary (200% year one)
- Buy out of most but not all existing awards at his former employer
- Benefits in line with our normal approach.

The talent pool for house builder Chief Executive candidates is small and competitive. This package was necessary to attract the right calibre of candidate to lead the turnaround of Crest Nicholson. The Board and Committee considers that we have been very fortunate to secure a proven housebuilding executive such as Peter, who has successfully led a similar competitor. The Board and Committee believes his appointment will be key to the success of the business going forward.

The package is higher compared to that of our former Chief Executive, who was a less experienced Chief Executive and had less specialist housebuilding experience. Peter's pension contribution of 10% of salary is lower than his predecessor and lower than the 20% salary pension contribution he received from his previous employer.

Full details of the buy out arrangements are found on page 93. We have sought like for like treatment with the awards being replaced. We are pleased that Peter chose to purchase 60,000 shares (at a price of £3.96) on 17 April 2019 before formally starting with the Company.

Duncan Cooper

We announced on 26 February 2019 that Duncan Cooper would join the business as Group Finance Director on 17 June 2019, with a salary of £335,000 (the same as his predecessor) and a pension of 10% of salary (lower than his predecessor). Duncan also received an LTIP award in respect of the FY2019 financial year of 150% of salary after joining and was eligible for a bonus of 125% of salary in respect of FY2019 on a pro rata basis.

Peter Truscott has, since joining the business, carried out a review of the business strategy and the responsibilities of the Executive Leadership Team. Following the departure of our Chairman of Major Projects & Strategic Partnerships a number of his responsibilities and duties will now transfer to our Group Finance Director. Rigorous governance and oversight of our significant land portfolio including the economic appraisal of new opportunities, potential divestments and partnership arrangements will be an essential part of realising the potential of our new business model.

To ensure that Duncan is fairly paid for this additional responsibility, the Committee has agreed a salary increase of 9% to £365,000 from 1 January 2020. However, given the stakeholder focus of alignment of pension to the workforce, the Committee is taking the opportunity to reduce Duncan's pension contribution from 10% to 6% of salary from the same date.

DIRECTORS' REMUNERATION POLICY

The Committee would rather not be reviewing and adjusting Duncan's remuneration so soon after his joining, but sees it as a necessary and final part of organisation of the Executive Leadership Team and its responsibilities.

Iain Ferguson
The new Chairman was appointed on an inclusive annual fee of £200,000 and receives no benefits or other remuneration.

Tom Nicholson
As announced on 19 December 2019, Tom Nicholson was promoted to the Board as Chief Operating Officer from 1 January 2020. Tom's appointment completes the formation of the new Executive Leadership Team to lead the business turnaround and implement an updated strategy. Tom will receive a salary of £374,000 and a pension contribution of 6% of salary. He will receive a bonus opportunity of 125% of salary and be eligible for an LTIP award of 150% of salary.

Details of arrangements for joiners and leavers can be found on pages 100 to 101 and pages 96 to 97 respectively.

Application of the Remuneration Policy for FY2020

There will be no change to Executive Directors' base salaries for FY2020 from the position outlined above.

Performance measures for the annual bonus plan will be 50% Profit before tax, 25% Cash management (based on net cash), 12.5% Customer service and quality and 12.5% Forward sales, with the Health and safety leadership adjuster enabling a downward adjustment of 10% of the bonus. There will be a discretionary override of the formula-driven outturn if the bonus payment level is inappropriate in the circumstances.

LTIP awards will be granted over shares of 200% of salary for the Chief Executive (as explained above) and 150% of base salary for the Group Finance Director and Chief Operating Officer, in all cases subject to EPS and ROCE (40% each) and EBIT margin (20%). Performance targets are set out later in the report on page 101.

Concluding remarks

Once again, I would like to thank my colleagues on the Committee, management and major shareholders for their time and support during what has been a very busy year.

I believe that we have the right leadership and Remuneration Policy in place to enable the Group to deliver its strategy and create sustainable value for shareholders.

We look forward to receiving your support at the 2020 AGM in respect of the binding vote on the new Remuneration Policy and the advisory vote on the Annual Report on Remuneration.

Octavia Morley
Chair of the Remuneration Committee

This policy report sets out the Directors' Remuneration Policy that guides the Remuneration Committee's decision-making process in the area of Executive remuneration.

The current Remuneration Policy was approved at the Company's AGM on 23 March 2017 and has reached the end of its three year life. Subject to receiving shareholder approval at the Company's AGM in March 2020, the new policy will replace the current policy – effective from the date of the AGM for a period of up to three years.

OVERVIEW OF REMUNERATION POLICY INCLUDING CHANGES TO THE PREVIOUS POLICY

The objective of the Remuneration Policy is to provide Executive Director remuneration packages that:

- Support the business strategy, are aligned to Company purpose and values, and promote long-term business success
- Have a significant proportion of remuneration linked to performance, thereby providing alignment of interest between executives, shareholders and wider stakeholders
- Attract and retain executives with appropriate skills and experience.

Following a detailed review of the existing policy for Executive Directors, we propose to make the following changes which are reflected in the new policy table set out overleaf:

Pension

- Company contribution in respect of pension for new appointments will be in line with the rate applying to the majority of the workforce (currently 6% of salary)
- Maximum Company contribution in respect of pension for existing Directors will be reduced from 15% to the rate applying to the majority of the workforce (currently 6% of salary), other than for the current Chief Executive where the policy will remain for a maximum contribution of 10% of salary.

Annual bonus

- Target level of bonus may be up to 50% of the maximum opportunity (e.g. 62.5% of a 125% maximum), rather than the current 50% of base salary
- The deferral period for part of bonus payments will be changed to a fixed three years. The previous policy permitted a period 'up to' three years (although our practice has been three years)
- Clarification that, for a 'good leaver' during a bonus deferral period, the deferred amount would normally vest after the three year deferral period rather than on cessation of employment (other than in exceptional circumstances) and that, as bonus has already been 'earned', the deferred amount would not normally be pro rated or scaled back.

LTIP

- The limit provided for awards in exceptional circumstances (such as recruitment) will be reduced from 300% to 200% of base salary
- A two-year post-vest holding period applying to LTIP awards will be formally incorporated into shareholder-approved policy (as has been our practice since 2018). This holding period would normally continue if the Executive Director ceases employment.

Shareholding guidelines

- Executive Directors are required to hold shares to 200% of base salary. The reference to the guideline level for the Executive Chairman (500% of salary) will be removed as this no longer applies following the departure of Stephen Stone
- Until the guideline level is achieved, Executive Directors will be required to retain no less than 50% of the after-tax value of deferred bonus or LTIP award shares
- Executive Directors will be required to retain a shareholding at the lower of the actual level of holding, and 200% of base salary for two years after ceasing employment (other than in exceptional circumstances).

Directors' service contracts

- The length of notice periods will be up to nine months from the Company or the Executive Directors (previously up to 12 months from the Company and no less than six months from the Executive).

Policy table

Element/Link to strategy	**Operation** (including maximum opportunity)
Base salary for Executive Directors **Recognises individual experience, responsibility and performance.** **Provides an appropriate level of fixed pay without over-reliance on variable pay.** **Essential to recruit, motivate and retain the best people in the market place to execute the Company's strategy.**	Salaries are normally reviewed annually taking into account: – Personal and Company performance – Salary increase received by the general workforce – Inflation and earnings forecasts – External market place comparisons. Base salary is set with reference to similar roles in a group of UK house builders and other listed companies more widely. The exact positioning of salary depends on a variety of factors including: the specific nature of the role and responsibility (particularly where this is not directly comparable to roles outside the Group); individual experience and performance; cost of living increases; inflation; Company performance; relativities to other Group employees; and market practice among other UK house builders. A new Director may be appointed at a salary less than the prevailing market rate but which may increase over a period to the desired positioning subject to satisfactory performance. While the Committee is guided by increases applied to the general workforce, it retains discretion to apply an above-workforce increase to a Director's salary. This may occur, for example, should there be a change in: the scope of an individual's role, the complexity of the business or market, or the size/value of the business that the Committee believes justifies a further adjustment of salary. **Performance framework** The Committee considers and sets appropriate individual Director salary levels annually having regard to the factors noted in this element of the policy. Salary is not linked to specific financial or non-financial performance measures.
Fees for Non-Executive Directors **Remunerates appropriately based on individual experience, time commitment and responsibilities.**	Non-Executive Directors' fees are paid in cash and are not performance related. Fees are reviewed annually and set taking into consideration the time commitment and responsibilities of the role, the sector, and market practice. Fees are determined and approved by the Board upon a recommendation from the Executive Directors. The Chairman's fee is set by the Committee. No Director is involved in setting his or her own fee. Additional fees may be payable in relation to extra responsibilities or time commitments undertaken, for example chairing a Board Committee and/or holding the position of Senior Independent Director. Reasonable travelling and other expenses for costs incurred in the course of the Chairman and Non-Executive Directors undertaking their duties are reimbursed (including personal tax that may be due on those expenses).
Benefits **Provides a competitive level of benefits and encourage the well-being and engagement of employees which are one of the four foundations of our strategy.**	A range of benefits are provided, including but not limited to: – Family private medical insurance – Company car or car allowance – Income protection – Personal accident insurance – Life assurance – Annual health check – Holiday and sick pay. The cost of these benefits varies over time depending on their cost in the market and individual circumstances. Directors who are required to move for a business reason may, where appropriate, be provided with relocation assistance. Where the Company offers a flexible benefits approach to employees generally (where the value of one benefit may be exchanged for another) a Director would have the option to participate. Other benefits in line with those received by the general workforce may be offered at the discretion of the Committee, such as long service awards or recognition of life events. The Company may also operate all-employee share incentive plans including Sharesave (SAYE), Share Incentive Plan (SIP) and other HMRC tax-approved all-employee schemes. Directors may participate in these on the same terms as other employees. As a general principle, benefits are not provided to Non-Executive Directors. However, there may be exceptional circumstances under which the Company provides a benefit, for example private medical cover, either with or without their meeting the cost (at the Group's negotiated rate).
Pension **Provides retirement planning and protection to employees and their family during their working life.**	Executive Directors may participate in the Crest Nicholson defined contribution pension scheme or, where deemed appropriate, receive cash in lieu of all or some of such benefit. For current Directors, a contribution in line with the rate applying to the majority of the workforce (currently 6% of salary) may be paid as pension contribution, cash or part cash, other than for the current Chief Executive who's pension contribution may be up to 10% of base salary. For new Executive Directors, the pension contribution level will be in line with the rate applying to the majority of the workforce (currently 6% of salary).

DIRECTORS' REMUNERATION POLICY CONTINUED

Policy table continued

Element/Link to strategy	**Operation** (including maximum opportunity)
Annual bonus Motivates and rewards individuals for executing the business strategy and achieving Committee-approved corporate objectives linked to the strategy foundations and strategic priorities. Compulsory deferral provides alignment with shareholders.	The maximum bonus opportunity is capped at 125% of salary for Executive Directors with on-target performance receiving 50% of maximum and up to 25% of the maximum payable for threshold performance. Two-thirds of the bonus is paid in cash (non-pensionable), with the remaining one-third deferred under the Deferred Bonus Plan for three years. **Performance framework** At least half of the bonus will be linked to one or more financial metrics with the remainder linked to non-financial metrics. Non-financial metrics will be based on relevant operational, business or personal objectives. The specific performance targets are set with the aim of setting stretching targets which incentivise and reward improved performance. The Committee may, in exceptional circumstances, use its discretion to amend the bonus outcome if it believes that it does not properly reflect overall underlying business performance, an individual's contribution or some other factor. The bonus (cash and deferred element) is subject to recovery provisions for three years from the date of payment in the event of serious misconduct, corporate failure, material misstatement of accounts, material failure of risk management, material breach of health and safety or environmental regulations, serious reputation damage arising from misconduct, error in calculation, or events that are similar in nature or outcome to those above. Repayments may be made through a reduction in future bonus or share awards on vesting, or by direct repayment.
Deferred Bonus Plan (DBP) Deferred element encourages longer-term shareholding and links part of annual bonus payments to the further success of the Group and shareholders' interests.	One-third of annual bonus is deferred in the form of conditional share awards or nil-cost options (the Deferred Share Awards) that vest or first become exercisable three years from grant and is normally subject to continued employment. Amounts equivalent to any dividends or shareholder distributions made during the vesting period may be awarded in respect of vested or exercisable Deferred Share Awards. **Performance framework** Deferred bonuses are based on the value of the bonus for any particular year. Vesting is not based on any future performance criteria and the value of deferred bonus awards on vesting are based on the share price at vesting. Deferred Share Awards are subject to withholding (adjustment downwards) at the Committee's discretion for the same recovery situations as set out above for the cash element of bonus.
Long-Term Incentive Plan (LTIP) Incentivises long-term shareholder value creation and execution of the strategy over the longer term. Drives and rewards achievement of key long-term Company objectives aligned with the strategy and with shareholder interests. Contributes to building a meaningful shareholding by aligning interests with wider shareholders.	LTIP awards will take the form of nil-cost options or conditional share awards. LTIP awards vest on the third anniversary of grant subject to achievement of performance measures and (other than in good leaver situations) provided the Director remains in office with the Company. In normal circumstances, award levels will be at a maximum of 150% of salary. However, the Committee retains the flexibility to make awards up to 200% of salary in exceptional circumstances including, for example, recruitment. Amounts equivalent to any dividends or shareholder distributions made during the vesting period may be awarded in respect of vested or exercisable LTIP awards, normally in the form of shares. A two-year post-vest holding period will apply to all vested LTIP awards. **Performance framework** Awards will be subject to challenging performance conditions in line with the business KPIs and will be measured over a three-year period. A maximum of 25% of each element vests for achieving the threshold performance target with 100% of the awards being earned for maximum performance. The Committee currently uses earnings per share (EPS) for 40% of the measure, return on capital employed (ROCE) for 40% of the measure and EBIT Margin for the remaining 20%. The Committee reviews the measures, their relative weightings and targets prior to each award and makes changes as is deemed appropriate (which may include the introduction of new measures in conjunction with or in replacement of EPS, ROCE and EBIT Margin). The use and split of EPS, ROCE and EBIT Margin are considered to be appropriate measures to incentivise operating discipline and returns for shareholders. The specific performance targets are set with the aim of setting stretching targets which incentivise and reward improved performance. The Committee may, in exceptional circumstances, use its discretion to adjust downwards the level of vesting of LTIP awards if it believes it does not properly reflect overall underlying business performance, shareholders' experience, an individual's contribution or any combination thereof. LTIP awards are subject to withholding (downward adjustment) at the Committee's discretion in the event of material misstatement of accounts, material failure of risk management, corporate failure, material breach of health and safety or environmental regulations, serious reputational damage arising from misconduct, serious misconduct, error in calculation, or events that are similar in nature or outcome to those set out above. Recovery (clawback) applies if such an event occurs within three years of an award vesting or, in the case of an option, when it first becomes exercisable. Repayments may be made through a reduction in future bonus or share awards on vesting, or by direct repayment.
Minimum shareholding requirement Encourages long-term commitment and alignment with shareholder interests.	Executive Directors are expected to build up and retain a significant shareholding equivalent to at least 200% of their base salary. Executive Directors are required to retain 50% of vested deferred bonus and LTIP awards after sale of shares for tax, national insurance or other statutory deductions until requirement met. **Post service requirement** An Executive Director shall continue to hold shares equivalent to the 200% of their base salary for a period of two years following termination of their employment. If an Executive Director holds less than 200% of their base salary at the date of cessation, they must continue to hold that lower level for the same period of two years. Shares purchased by an Executive Director from their own funds will not be required to be held. The Committee may, in exceptional circumstances, exercise its discretion to adjust the holding requirement.

HOW THE COMMITTEE WILL USE ITS DISCRETION

Incentive plans will be operated in line with the rules of each plan, together with relevant laws and regulations. However, it is important that the Committee retains appropriate discretion (as is customary) over the administration and operation of incentive plans.

Discretion includes, but is not limited to, the following in relation to incentive schemes:

- Changes or adjustments required in certain circumstances (e.g. change of control, rights issues, special corporate or dividend events, or change in business strategy)
- Determination of vesting (or payment) and the treatment of leavers and vesting for leavers
- As permitted by HMRC and other regulations, in respect of SAYE, SIP or any other all-employee schemes.

In relation to incentive schemes including annual bonus and LTIP, the Committee may adjust performance targets and/or measures where these have ceased to be appropriate. Such adjusted targets or measures will not be materially less difficult to satisfy. Any use of this discretion would, where relevant, be explained in future Directors' Remuneration Reports and may be subject to consultation with major shareholders where appropriate.

REMUNERATION POLICY FOR OTHER EMPLOYEES

The policy described in the previous table applies specifically to the Company's Executive and Non-Executive Directors. The Committee believes that it is appropriate that the reward of the Group's senior management be linked to Company performance and aligned with the growth of shareholder value.

The Company operates the same remuneration and benefits framework across the Group:

Salary	The policy applied to Executive Directors is applied in the same way to the overall workforce.
Benefits	The policy applied to Executive Directors is applied in the same way to wider employees. Certain benefits apply at higher levels based on seniority, relate to specific roles or have shorter or no waiting-periods.
Annual bonus	Annual bonus schemes operate throughout the business at all levels of seniority. Performance targets and the amount which can be earned are based on seniority and the nature of the role and responsibilities.
Long-Term Incentive Plan	The LTIP for Executive Directors also applies to Crest Nicholson's senior management at a reduced opportunity level commensurate with the seniority and level of responsibility of participants.
SAYE	All employees are eligible to participate in the Crest Nicholson Sharesave scheme or any other all-employee scheme operated by the Company.

APPROACH TO RECRUITMENT REMUNERATION

The table below sets out the components that would be considered for inclusion in the remuneration package of an Executive Director on appointment, and the approach the Committee will adopt in respect of each element.

Area	Policy and operation
Overall	For an external appointment, the Committee will take account of an individual's remuneration package in their prior role, the market positioning of the package and their skills and experience. The Committee will not pay more than necessary to facilitate the recruitment of an individual. For an internal appointment, the Committee may initially position remuneration below market level and increase overall pay levels over a period of time to achieve alignment with market levels for the role, subject to Company and individual performance.
Base salary	Salary level will be set taking into account the skills and experience of the individual, responsibilities of the role and salaries paid for similar roles in comparable organisations. The direct comparability or otherwise of those other roles will be a material factor.
Pension and benefits	Directors will be eligible to participate in Crest Nicholson's benefit plans and the Crest Nicholson Pension Plan or salary supplement scheme in accordance with the policy set out in the Remuneration Policy table.
Annual bonus	Directors will be eligible to participate in the discretionary annual bonus scheme as set out in the Remuneration Policy table. The maximum opportunity will be 125% of salary, consistent with this policy. Depending on the timing of the appointment, the Committee may deem it appropriate to set different annual bonus performance conditions to the current Executive Directors in the first performance year of appointment.
Long-term incentives	An Executive Director will be eligible to participate in the LTIP set out in the Remuneration Policy table. The opportunity levels will be consistent with what is disclosed in the Remuneration Policy table and, in exceptional circumstances, the Committee is able to make an award of up to 200% of salary. An LTIP award can be made shortly following an appointment.
Replacement awards	The Committee may grant an Executive Director replacement awards to compensate for forfeited remuneration (including bonus and long-term incentive awards) from previous employment. Should replacement awards be made, the awards granted would be no more generous in terms of quantum or vesting period than the awards due to be forfeited. In determining the quantum and structure of these commitments, the Committee will seek to replicate the fair value of the award and, as far as is practical, the timing and performance of the remuneration foregone. For an internal appointment, any variable pay element awarded in respect of the prior role may be allowed to pay out according to its terms, adjusted to take account of the appointment if this is appropriate.
Other	The Committee may agree that the Company will meet certain relocation or other transitional expenses deemed appropriate.

DIRECTORS' REMUNERATION POLICY CONTINUED

SERVICE CONTRACTS AND POLICY ON PAYMENT FOR LOSS OF OFFICE

For Executive Directors, nine months notice of termination is required from either party and this will be the approach for all new appointments.

The table below sets out the Committee's policy on termination arrangements for Executive Directors. References to good or bad leavers below are examples of how the policy would work and are not definitive:

Area	Policy and operation
Overall	Because terminations do not always fit neatly into defined categories, when considering the suitable treatment of a termination, the Committee will have regard to all relevant facts and circumstances available at the time including the reason, contractual obligations and incentive plan rules. The Committee is firmly against rewarding failure. The Committee retains discretion for payments to be made in good faith in relation to very specific legal circumstances, such as the discharge of an existing legal obligation in respect of salary, benefits and other contractual entitlements, damages for breach of obligation and a settlement or compromise of any claim or potential claim arising with the termination of a person's office or employment. In any event the Committee will only make such payments where it considers it to be in the best interests of the Group and its shareholders, with full disclosure of any such payments in the following year's Remuneration Report.
Contractual payments	Crest Nicholson may terminate service contracts immediately by making a payment in lieu of notice consisting of base salary, pension and any contractual benefits for the unexpired period of notice. This payment may be made as either a lump sum or as instalments over the period. If Crest Nicholson elects to make this payment by instalments, the Executive Director normally has a duty to seek alternative employment and, where practical, any remuneration received from a new role will be offset against the payment.
Annual bonus	In the event of termination for a reason other than resignation or gross misconduct for material performance or conduct concerns, a Director may be entitled, at the discretion of the Committee, to a bonus in respect of the year in which their employment terminates. Payment would be reduced on a pro rata basis to reflect the portion of the bonus year worked, be paid at the usual time and be subject to an assessment of performance over the period. In relation to Deferred Bonus awards, individuals would be defined as good or bad leavers, with good leavers being those leaving under pre-determined circumstances such as retirement (proved to the satisfaction of the Board), redundancy, ill-health, death or disability (proved to the satisfaction of the Board), or those deemed by the Board in its absolute discretion to be good leavers given the circumstances surrounding termination. All other leavers would be bad leavers. If an individual is categorised as a good leaver then, other than in exceptional circumstances, they will continue to hold the deferred share award, which will vest on the normal vesting date. If an individual is considered by the Committee to be a bad leaver, their awards will lapse in full.
Long-term incentives	Individuals would be defined as good or bad leavers, with good leavers being those leaving under pre-determined circumstances such as retirement (proved to the satisfaction of the Board), redundancy, ill-health, death or disability (proved to the satisfaction of the Board), or those deemed by the Board in its absolute discretion to be good leavers given the circumstances surrounding termination. All other leavers would be bad leavers. If an individual is categorised as a good leaver then, other than in exceptional circumstances the award will vest on the normal vesting date reflecting the extent to which performance targets have been met and the number of shares would normally be pro rated to reflect the reduced service period. The post vest holding period would also apply, other than in exceptional circumstances. If an individual is determined to be a bad leaver, their awards will lapse in full.
Shareholding requirements	The Committee would enforce the post cessation of employment shareholding requirements, as described in the policy.
Other	The Committee may provide for outplacement services where it considers that this is reasonable.

STATEMENT OF CONSIDERATION OF EMPLOYMENT CONDITIONS ELSEWHERE IN THE GROUP

During the year, the Committee reviewed the remuneration framework applicable to employees generally. The Directors' Remuneration Policy framework applies in a very similar way across the Group in terms of types of benefits and variable pay relative to role grades and disciplines. This ensures alignment across the Group and encourages shared goals and objectives.

When making remuneration decisions for Executive Directors, the Committee considers the wider economic environment and conditions within the Company. In particular, the Committee is sensitive to pay and employment conditions across the wider workforce and carefully considers the broader employee salary increase budget when making reward decisions for Directors. The Committee considers wider industry benchmarking material in the context of monitoring its overall position on Director and employee pay. The Company carries out periodic employee engagement surveys that provide employees with the opportunity to share their views on a number of employment related areas, including remuneration. The Committee considered carefully the pay changes in the year in the context of those being applied to the wider workforce. The Committee believes that having a stable, focused Executive Leadership Team in place to implement the updated strategy and turn around the financial performance of the Group is in the longer term interests of employees and stakeholders.

During Health & Well-being workshops held in 2019 (which included benefits and remuneration), the Chair of the Committee presented the proposed Remuneration Policy and received questions and comments. These were taken into account in the drafting of the 2020 Remuneration Policy.

STATEMENT OF CONSIDERATION OF SHAREHOLDER VIEWS

In considering the operation of the Remuneration Policy, the Committee takes into account the published remuneration guidelines and specific views of shareholders and proxy voting agencies. The Committee consults with the Company's larger shareholders, where considered appropriate, regarding changes to the operation of the Policy and when the Policy is being reviewed and brought to shareholders for approval. The Committee considers specific concerns or matters raised at any time by shareholders.

The new Policy was the subject of a consultation process with major shareholders in autumn 2019. Contributions were broadly supportive and the Committee carefully considered the comments received. The Committee thanks shareholders for their time and contributions during this process.

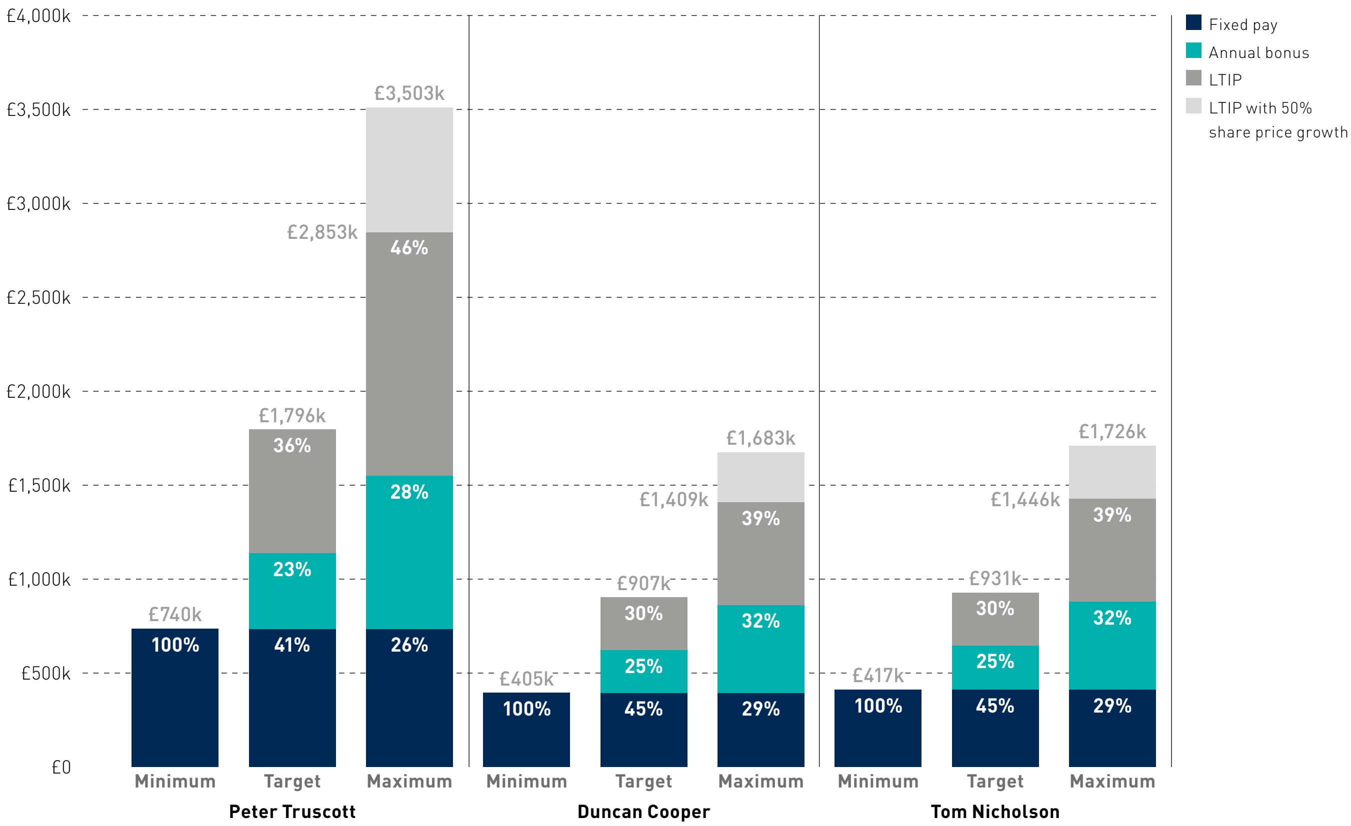
Further information about shareholder views is set out in our section:

Statement of voting at Annual General Meeting: p101

ILLUSTRATION OF APPLICATION OF REMUNERATION POLICY IN 2020

The composition and structure of the remuneration package for Executive Directors in three performance scenarios is set out in the charts below.

Illustration of application of Remuneration Policy in 2020



Key and assumptions

Minimum: Fixed remuneration consisting of current annualised salary, pension (plan contribution or cash supplement) and benefits.

Target: Fixed remuneration as detailed above, plus 50% of maximum as target bonus opportunity, and vesting of 50% of the maximum LTIP award.

Maximum: Fixed remuneration together with the maximum annual bonus opportunity of 125% and vesting of 100% of LTIP award representing 150% of salary (200% Peter Truscott for FY2020 only). The graph also shows what would happen should Crest Nicholson's share price increase by 50%, increasing the value of LTIP awards.

Other than illustrating 50% share price growth, share price movement and dividend accrual are excluded.