

Introduction

The Board believes that high standards of corporate governance are integral to the delivery of its strategy, providing the means by which the Board may manage the expectations of stakeholders to optimise sustainable performance.

The Group fully complied with the provisions of the 2016 UK Corporate Governance Code (2016 Code) during the 2019 financial year. Following the Financial Reporting Council's publication of the 2018 UK Corporate Governance Code in July 2018 (the 2018 Code) applicable to financial years beginning on or after 1 January 2019 and the Guidance on Board Effectiveness, the Board has carried out a detailed review of how the 2018 Code's principles have been applied, together with the processes and procedures that have been adopted by the Company to support the 2018 Code. The Board is fully engaged with these matters and committed to ensuring that we continue to meet our obligations under section 172 of the Companies Act 2006 to promote the success of the Company for the benefit of shareholders but also with regard to the interests of all of our stakeholders.

In addition, the Group remains compliant with the Financial Conduct Authority's Listing Rule 9.8.6 and Disclosure Guidance and Transparency Rule 7.2.1. Related information can be found in the Directors' Report on pages 78 and 79 of the 2019 Annual Report.

UK Corporate Governance Code

Under the 2018 Code, Boards are required to consider the way in which they carry out their role. Directors must explain how they have applied the principles in terms of practices, process and actions and under section 172 of the Companies Act 2006, they must have regard to the interests of certain stakeholders and demonstrate that these have been considered at Board level. At the heart of the Code's principles are the strengthening of the employee voice and engagement with a broader range of stakeholders. In addition, the 2018 Code emphasises the Board's role in establishing the Company's purpose, values and strategy and that these are aligned to the Company's culture. During the year, the Board has considered how best to implement the new requirements of the Code. The Board has undertaken a detailed gap analysis of its current governance processes and identified key actions required to enhance our governance within the Group.

The Board has set out a plan for the next 12 months showing the tasks to be completed, and work undertaken to date includes:

- refreshing the Group's Code of Conduct, Doing the Right Thing, published in May 2019;
- reviewing and refreshing the Board Committees' terms of references to address the 2018 Code requirements;
- establishing a Stakeholder Steering Committee in May 2019, comprising representatives from our businesses as well as representatives from procurement, health and safety and HR; and
- establishing an Employee Forum made up of employee-nominated representatives and chaired by a non-executive director.

The Board is pleased with the progress that we have made in addressing the new requirements of the 2018 Code and will continue to undertake further work to ensure that the Group continues to operate to the highest standards of corporate governance.

Statement and Reporting

The Group continues to prepare a Corporate Governance statement for the purposes of Disclosure Guidance and Transparency Rule 7.2.1 stating, and if necessary explaining, compliance with the Code through the applicable financial year. In 2019 the report covered:

- Board attendance
- Board focus in 2018/19
- Board composition
- How the Board operates
- Board evaluation
- Diversity
- Governance policies
- Shareholder relations
- Reporting, risk, internal audit and controls
- Board committees

The Company also prepares an annual Remuneration Report in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and the Financial Conduct Authority's Listing Rules. The Remuneration Policy for 2017 to 2020, which was approved by shareholders at the 2017 AGM, is included on pages 58 to 60 in the 2017 Annual Report.

The following extracts from the 2019 Corporate Governance review, which can be found on pages 54 to 77 of the 2019 Annual Report, summarise the application of the Group's Corporate Governance policy during the financial year ended 30 June 2019, and subsequent updates up to the date of this document:

Board attendance

All Board meetings were led by the Chairman with the General Counsel and Company Secretary in attendance. The Senior Independent Director separately led a meeting of the non-executive directors to assess the performance of the Chairman, without him present. A summary of Board and Committee attendance can be found on page 58 of the 2019 Annual Report, together with a summary of the content of each Board meeting.

Board composition

Biographical summaries for each of the directors as at 30 June 2019, their respective responsibilities and their external directorships are set out on pages 54 and 55 of the 2019 Annual Report. There were a number of changes to the Board and its Committees during the year. On 1 September 2018, Marisa Cassoni joined the Board as a Non-executive Director and became Chair of the Remuneration Committee following the publication of the Group's half year results on 13 February 2019 as planned. With effect from 26 March 2019, Graham Prothero was appointed as Chief Executive to succeed Peter Truscott who stepped down from the Board. At the same time, Andrew Duxbury, who was Finance Director of Linden Homes and previously Group Financial Controller, succeeded Graham as Finance Director and joined the Board. Further information can be found in the Nomination Committee report on page 64 of the 2019 Annual Report.

In line with the Code, all directors stood for re-election at the 2019 AGM. The performance of the directors continues to be effective and commitment to their respective roles is clearly demonstrated.

How the Board operates

The Board is led by the Chairman, who on appointment met the independence criteria set out in the Code and who is responsible for the Board's effectiveness. The Board is further comprised of three non-executive directors, the Chief Executive and the Finance Director.

The Board is collectively responsible for the long-term success of the Company and operates via a formal schedule of matters reserved for its decision. The Board also delegates certain matters to management; such delegations being reviewed annually. A summary of the matters reserved for the Board and the matters delegated to management is set out on page 59 of the 2019 Annual Report.

The duties of the Chairman and Chief Executive are clearly specified to ensure proper division of responsibilities and balance of power. The key responsibilities of the Chairman include leadership of and communication with the Board, value setting, shareholder liaison, governance and performance evaluation and appraisal. The key responsibilities of the Chief Executive include developing Group strategy, operational performance and executive management, including chairing the Group's Executive Board. Copies of the respective role descriptions are available on the Group's website (www.gallifordtry.co.uk).

Terry Miller was the Group's Senior Independent Director throughout the year and was available to shareholders during that time. Terry Miller was not contacted in that capacity by shareholders during the financial year.

Other than the changes referenced, the roles and responsibilities of each of the non-executive directors, which are detailed in their individual letters of appointment, have not changed from the previous financial year. The letters of appointment are available for inspection on request at the Company's registered office.

Well-established Board procedures for the timely provision of quality information in advance of all Board and Committee meetings, and for the provision of independent professional advice, have remained in operation throughout the financial year. The Board continues to benefit from its established reporting mechanisms, designed to ensure crucial management and project-specific information and significant Group-wide developments are reported quickly and accurately facilitating prompt approval of further actions. Throughout the year the Board also received regular Group, divisional and business unit-specific presentations, covering all key aspects of the Group's operations.

All directors have access to the advice and services of the General Counsel and Company Secretary. No director sought independent advice during the financial year.

The Board receives regular presentations from the businesses on operational matters, assisting Board members to stay up to date with sector-relevant issues, and receives updates from advisers on pertinent matters as and when required. Board members are encouraged to undertake their own continuing professional development.

The Group maintains appropriate Directors' and Officers' Liability Insurance on behalf of the directors and General Counsel and Company Secretary. In addition, individual qualifying third-party indemnities are given to the directors and General Counsel and Company Secretary which comply with the provisions of Section 234 of the Companies Act 2006, and were in force throughout the year and up to the date of signing the Annual Report.

Board evaluation: 2018 update and 2019 external evaluation

The 2018 Board evaluation found that the Board and its Committees were operating effectively. The findings were presented to the May 2018 Board meeting and actions were agreed by the Board to address the recommendations of the evaluation. The table summarises the substantive recommendations made and actions undertaken during the financial year to address them.

2018 Board evaluation recommendations	Actions taken during the year
Annual site visits	Three site visits and an annual office visit were arranged during the year to further enhance the Board's knowledge of operations as well as engagement with management.
Board presentations	Presentation materials were included in Board papers during the year with informal discussion and debate held over Board dinners, site or office visits.
Strategy and competitor environment	A strategy meeting took place in October 2018 to review strategy to 2025, markets and competitor environment and outlook.

The Board reviews its own effectiveness and that of its Committees on an annual basis, with an externally facilitated review at least every third year. In 2019, the Board appointed Independent Audit Limited (Independent Audit) to conduct an externally facilitated evaluation which included one-to-one interviews with Board members, the General Counsel and Company Secretary, and others who have significant interaction with the Board; observation of a Board meeting; and a review of Board and Committee papers and other relevant governance documentation. Face-to-face interviews focused on areas including Board composition, dynamics, strategic and operational oversight, risk management, oversight of culture, succession planning and HR, priorities for change, and the Committees. Independent Audit was selected after a competitive tender process and has no other connection with the Company or individual directors. Independent Audit provided a report based on responses to the interviews, which was discussed in draft with the Chairman and then presented in full to the Board. The Board discussed the report and agreed actions to take forward, based on the suggestions in the report.

Overall, the evaluation confirmed that the Board and its Committees are operating effectively and the Board concluded that it has the following strengths:

- Chairmanship.
- Agenda setting.
- Balanced composition.
- Good mix of skills and experience.
- Evaluation of risk when making big decisions.
- Committees performing well.

The Board identified the following areas in which it would like to make improvements:

- Take a more holistic approach to organisational culture.
- Focus on diversity across the organisation.
- Take a longer-term view and plan for succession.

Performance evaluation of individual directors is conducted by the Chairman on an annual basis. The Chairman holds one-to-one meetings with each Board member to discuss their performance, contribution, commitment and training and development needs. The Senior Independent Non-executive Director holds a session annually with all Board members except the Chairman to discuss the performance of the Chairman. The Senior Independent Non-executive Director then meets with the Chairman to provide feedback.

Diversity

In 2013 the Board stated its commitment to addressing the expectations of the Davies Report 'Women on Boards' where appropriate and possible. As at 30 June 2019, women held 29% of Board positions.

Strategies to improve diversity at all levels in the workforce have continued further on the work undertaken in 2018 to ensure each business has the right culture, procedures and policies in place. Our Construction business has sponsored the Women in Construction summit and developed a video which it shared at events and on social media showcasing how we encourage and support women in construction. A variety of inclusive initiatives, such as gender-neutral recruitment, supporting diversity programmes and the promotion of agile working are used to make the Company more attractive to a wider group of employees. Further diversity disclosures can be found in the Strategic report on page 50.

Executive Board report

Membership of the Executive Board is detailed on pages 54 and 55 of the 2019 Annual Report. Executive management is the responsibility of the Chief Executive who chairs the Executive Board. The Executive Board is responsible for the operational management of the Group under terms of reference delegated by the Board, which also includes delegated responsibility for making recommendations to the Board on all items included in the formal schedule of matters reserved for Board authorisation. The Executive Board receives and considers regular performance and operational reports and presentations from divisional management. The Assistant Company Secretary acts as secretary to the Executive Board. The minutes of Executive Board meetings are included as part of the Board pack.

The Executive Board meets at least 10 times a year and additional meetings are convened when necessary to consider and authorise specific operational or project matters. The Executive Board focuses on long-term strategic issues and matters of Group-wide policy, with health, safety and sustainability, business ethics and customer service as the first agenda items at every meeting, which highlights the importance of such matters to the Group. Executive responsibility for operational matters of each business has been devolved to a greater extent to the executive boards of each business, which hold at least 10 meetings per annum.

Governance policies

The Group continues to operate a suite of governance and risk management policies, procedures and training programmes, all of which address obligations arising under the relevant legislation. The Group Corporate and Finance Manuals, which summarise the policies, procedures and authority matrices by which the central functions and divisions operate, were subject to ongoing update and refresh during the financial year.

Shareholder relations

The Company continues to prioritise maintaining effective relationships with all its shareholders and seeks to engage with interested parties. The Board, and in particular, the Chief Executive and Finance Director, continues to organise meetings with existing and prospective institutional shareholders.

The Board as a whole continues to engage actively with institutional shareholders in line with the UK Stewardship Code, whether on key matters of specific relevance to the Group and its operations or general market themes, and specific reports regarding shareholder views are provided to the Board for analysis and discussion. Separately, the Senior Independent Director and other non-executive directors are available to attend meetings with shareholders and address any significant concerns stakeholders may have.

The Company's AGM, held in November each year, continues to be a popular means for private shareholders to receive updates on Group performance, including a presentation from the Chief Executive. All directors of the Company were in attendance at the 2019 AGM. Arrangements for the meeting including notice period and voting arrangements followed the requirements of the 2016 and 2018 Codes and related best practice.

Reporting, risk, internal audit and controls

The governance review commencing on page 54 of the 2019 Annual Report details the specific actions undertaken by the Group during the financial year, including those with a risk management focus. The Board's approach to risk and internal audit, including its systems in relation to the preparation of consolidated accounts, and the material controls of the Group's established internal control framework, are disclosed in the Principal Risks section on pages 26 to 32 of the 2019 Annual Report.

Any matters of non-compliance with the provisions of the Group Corporate and Finance Manuals have been rectified either during the financial year or by the date of the 2019 Annual Report. A separate programme of 15 internal audits was also completed across the Group's operations and progress checks were completed against previous recommendations.

Board committees

The Committees of the Board, their members and a report on their activities are given below:

Audit Committee

The Audit Committee is led by Jeremy Townsend as Chairman, and is further comprised of independent non-executive directors. Additional details on the Committee's members can be found on pages 54 and 55 of the 2019 Annual Report. The Chairman of the Board, Chief Executive and Finance Director attend Committee meetings by invitation, together with the Director of Risk and Internal Audit and the Director of Group Finance. The General Counsel and Company Secretary or his nominee act as secretary to the Committee. Both Marisa Cassoni, Committee member, and the Committee Chairman have a financial background and are members of the Institute of Chartered Accountants in England and Wales. The Board considers that this satisfies the 2016 Code and 2018 Code requirement that the Committee's membership must have recent and relevant financial experience.

In addition, the 2018 Code requires that the Committee as a whole should have competence relevant to the sector in which the Company operates. The Committee Chair has extensive experience in his role as Chief Financial Officer of Rentokil Initial plc, previously as Finance Director at Mitchells & Butlers plc and in various finance roles at J Sainsbury plc of financial reporting preparation and compliance for public companies and of dealing with internal and external auditors. Marisa Cassoni has wide experience in numerous roles, which include Group Finance Director of the John Lewis Partnership, Royal Mail Group, Britannic Assurance Group and Prudential UK Group. She also has experience of being a non-executive director with Skipton Building Society, AO World plc and Ei Group plc. Terry Miller has wide experience of construction arising from having seen the negotiation of overlay construction contracts as General Counsel for the London 2012 Olympic Games. She also has extensive experience as a non-executive director and currently serves as a non-executive director with two Goldman Sachs group companies and a regulated insurance company. Gavin Slark is currently Chief Executive Officer of Grafton Group plc, an independent company operating in the merchanting, DIY retailing and mortar manufacturing markets in Britain, Ireland and Belgium. He was previously Group Chief Executive of BSS Group plc, a leading UK distributor to specialist trades including the plumbing, heating and construction sectors. The Board is satisfied that, as a whole, the Committee has competence relevant to the sector in which the Group operates.

The focus of the Committee during the financial year has been primarily in relation to reviewing the position on legacy construction contracts and their impacts. The Committee has continued to monitor and review developments in corporate governance, the integrity of the financial statements and the adequacy and effectiveness of the risk management and internal control framework of the Group. The Committee considers

that the 2019 Annual Report and financial statements are fair, balanced and understandable in terms of the form and content of the strategic, governance and financial information presented therein.

Remit and activities

The Committee meets at least three times a year, this number being deemed appropriate to the Committee's role and responsibilities. The Committee's delegated authorities and calendar of prioritised work have not changed substantially from those disclosed in previous years. The terms of reference of the Committee are available on the Group's website (www.gallifordtry.co.uk). The key responsibilities of the Committee are: delegated responsibility from the Board for financial reporting; monitoring external audit, internal audit, risk and controls; and reviewing instances of whistleblowing and the Group's procedures for detecting fraud.

The authorities and calendar of work remain in line with the requirements of the 2016 Code. At each meeting, Committee members take time, in the absence of executive directors, to review separately and discuss any issues meriting their attention. The key activities during the financial year are set out on page 63 of the 2019 Annual Report. The Committee also continues to meet with internal and external audit teams, without executive management present.

During the financial year, the Risk and Internal Audit team focused on delivering its agreed calendar of audit reviews under its rolling three-year internal audit plan and on providing commercial and risk management support across the Group at the request of the Committee, the Executive Board and senior management. The risks of the Group are reviewed by the Executive Risk Committee, which reports to the Executive Board and the plc Board. In line with the 2018 Code, the Committee has reviewed procedures in place to identify emerging risks. More information about the Group's principal risks, its process of identifying and managing emerging risks, its long-term viability and its risk management systems can be found in the Principal risks section on pages 26 to 32. Policies and review mechanisms governing the provision of material non-audit services, and safeguarding the objectivity and independence of the external auditor, remained in force throughout the financial year. The policy specifies: the types of non-audit services for which the use of the external auditor is pre-approved (ie approval has been given in advance as a matter of policy); the services for which specific approval from the Committee is required before the auditor is contracted; and the services from which the external auditor is excluded. In respect of pre-approved services, a financial threshold is in place, applicable to individual and aggregated services in any year. Furthermore, should the total value of non-audit service engagements exceed a defined percentage of the total Group audit fee for the previous financial year, the Committee shall consider and give specific prior approval for any subsequent non-audit service engagements.

Audit tender

In the 2018 Annual Report, the Committee reported that it intended to conduct a competitive tender of the Group's external auditor. The tender process was undertaken in the second half of 2018. The Committee had overall oversight of the audit tender process. A number of firms, excluding PwC, were invited to submit tender proposals based on the Group's audit requirements and assessment criteria which were set out in a formal tender request proposal. Meetings were held between the prospective audit representatives and members of the Board, the executive team, the divisional finance directors and some of the functional heads. Their proposals were submitted to the Board in December 2018 followed by a presentation to the Committee. The Committee undertook a formal and structured evaluation of the presentations and tender submissions of each of the candidate firms based on objective evaluation criteria. Based on this evaluation, the Committee recommended to the Board the appointment of BDO LLP as external auditor. The Board considered the Audit Committee's recommendation and selected BDO as the Group's auditor. PwC continued in its role as Group auditor until the completion of the audit for the 2019 financial year. A transition programme was agreed with both PwC and BDO, which included BDO shadowing PwC during the 2019 financial year-end audit and 2019

interim accounts process in addition to attendance at all Audit Committee meetings during 2019. BDO were appointed by shareholders as Group auditor at the AGM in November 2019.

The Committee reviewed the integrity of the Group's financial statements and all formal announcements relating to the Group's financial performance. This included an assessment of each critical accounting policy, as set out in note 1 to the financial statements, as well as review and debate on the following areas of significance.

- Review of construction contracts: the Committee has overseen an internal review of the Construction business led by the Risk and Internal Audit team. The scope of this review includes positions on key contracts in Construction and the root causes of unexpected additional costs as announced in April 2019.
- Contract revenue and provisions: in conjunction with the annual audit, the Committee reviewed a paper setting out key judgments in respect of revenue recognition and contract provisions, in relation to certain significant long-term Construction contracts. This specifically included consideration, in the context of IFRS 9 and IFRS 15, of the accounting and disclosure in relation to the Aberdeen Western Peripheral Route and three terminated contracts (see financial review on page 34).
- Future IFRS developments: during the year, the Committee continued to review the implementation of new accounting standards with respect to their impact on the Group's results and financial statements. This included IFRS 16 Leases, for which an impact assessment and implementation project was completed and presented. The Committee also considered, reviewed and approved the Group's proposed internal accounting policy to reflect the requirements of the new standard, which was adopted by the Group on 1 July 2019. Further details on the impact of the adoption of IFRS 15, IFRS 9 and future adoption of IFRS 16 can be found in notes 1, 3 and 39.
- Going concern and viability: the Committee assessed the available bank facilities and the associated covenants and sensitivities. The Committee also considered other commercial and economic risks to the Group's going concern status and longer-term viability, including cash recovery sensitivities in respect of the legacy joint arrangements infrastructure projects. The Committee reported to the Board on its findings.
- Goodwill impairment review: during the year, the Committee considered the judgments made in relation to the valuation methodology adopted by management and the model inputs used, as well as the sensitivities used by management and the related disclosures.
- Financial Reporting Council review of 2018 financial statements: The Group's 30 June 2018 financial statements are subject to an ongoing review by the FRC's Corporate Reporting Review team. This has resulted a number of enhancements being made to our disclosures in the 2019 financial statements. As part of that enquiry, we have also reconsidered our treatment of cash flows with our joint ventures and now present these as investing rather than operating cash flows. We have also represented the 2018 comparatives on a consistent basis with this revised treatment which has resulted in £53.2m of net cash used in operating activities being reclassified as net cash used in investing activities.
- Disclosure of significant transactions: the Committee has given particular consideration to the presentation of individually significant transactions, and areas where alternative performance measures are required to ensure that the financial statements give a fair, balanced and understandable view of the Group's performance, and that statutory measures are equally clear and prominent. Reconciliations of alternative performance measures to their statutory equivalent measures are detailed in note 38 to the financial statements in the 2019 Annual Report.

Nomination Committee

The Nomination Committee is led by Peter Ventress and is further comprised of three independent non-executive directors. As reported in the 2018 Annual Report, Marisa Cassoni joined the Board on 1 September

2018 and became a member of the Audit, Nomination and Remuneration Committees. As planned, Marisa was appointed Chair of the Remuneration Committee after the Group's half year results in February 2019, following the stepping down of the Interim Chair, Terry Miller. Terry has continued to be a member of the Audit, Nomination and Remuneration Committees.

During 2019, the Committee oversaw a number of significant changes to the Board. As already reported on page 10, on 26 March 2019, Peter Truscott stood down as Chief Executive to pursue other opportunities. Graham Prothero, who was formerly Finance Director, was appointed as Chief Executive. Andrew Duxbury succeeded Graham as Finance Director and joined the Board with immediate effect. Andrew joined the Group from PwC in 2012, and has held a number of senior finance positions, including Group Financial Controller.

On 7 November 2019 the Group announced it had entered into an agreement with Bovis Homes Group PLC regarding a combination of Bovis Homes and the Group's housebuilding businesses, Linden Homes and Partnerships & Regeneration. The transaction is expected to complete on 3 January 2020. Following completion, it is expected that Graham Prothero will step down as Chief Executive and leave the business. Bill Hocking would be appointed Chief Executive of the Continuing Group. Bill has been Chief Executive of Construction since 1 August 2016. It is expected that he will enter into a new service agreement, the terms of which will reflect his appointment as Chief Executive of the Continuing Group.

Composition and remit

Membership of the Committee is detailed on pages 54 and 55 of the 2019 Annual Report (as at 30 June 2019). The Nomination Committee is led by Peter Ventress and is further comprised of three independent non-executive directors. Marisa Cassoni joined the Committee with effect from 1 September 2018 and was appointed as Chair of the Remuneration Committee after publication of the Group's half year results on 13 February 2019 as planned.

Following the publication of the 2018 Code, the Committee has reviewed the terms of reference and updated them to ensure that they are in line with the new Code. The terms of reference of the Committee can be found on the Group's website (www.gallifordtry.co.uk). The authorities delegated to the Committee by the Board are similar to previous years and comprise, among other matters:

- Reviewing the size, structure and composition of the Board.
- Evaluating the balance of skills, knowledge, diversity and experience of the Board, including the impact of new appointments.
- Overseeing and recommending the recruitment of any new directors.
- Ensuring appointments are appropriately made against objective criteria.
- Keeping the leadership and succession requirements of the Group under active review.

The principal tasks of the Committee during the financial year have been to oversee the succession to the roles of Chief Executive and Finance Director and to continue the development, monitoring and oversight of the previously agreed succession planning processes and the further implementation of the range of inclusive and diversity-supporting initiatives. The Committee received updates twice during the year on both the ongoing succession planning and talent-mapping process at various levels within the Group, together with the individuals identified, and any development requirements necessary to ensure effective succession. As a result of this work, there is a greater understanding of the succession process and development plans in place for key positions where necessary. Succession planning, development and leadership requirements will continue to be the subject of direct focus and engagement by the Committee for the coming financial year.

The Committee is also committed to embedding inclusion and diversity at Board and executive level and generally throughout the Group. Activities include a range of initiatives with direct participation from

management to help address its gender pay gap, action plans to target inclusivity and diversity, and access to agile working arrangements to ensure that the Company provides a supportive and flexible culture, environment and working practices to suit everybody's needs. In so doing, it aims to continue to attract and retain the best candidates and ensure the full development of all its employees across the Group.

At the financial year end, the Committee comprised a majority of independent non-executive directors, complying with provision B.2.1 of the 2016 Code. External consultant Russell Reynolds, which was consulted on the Board appointments during the financial year, has no other connection with the Group.

Remuneration Committee

The Group overall delivered another year of both strong operational and underlying financial performance notwithstanding the challenges faced by the Group's Construction business. The Group is making good progress towards its strategic plans to 2021.

In determining the 2018/19 annual bonus outcome, the Committee considered the exceptional costs incurred during the year. However, the pre-exceptional profit before tax (PBT) of £155.5m was below the threshold required for that element of the bonus (the largest single element). Performance in other areas was strong and the Committee believes that the bonus level produced by scorecard (57%) was an appropriate reflection of overall performance – see page 72 of the 2019 Annual Report. This treatment is consistent with that applied for participants of the Annual Bonus Plan (ABP). Vesting of the 2016 Long Term Incentive Plan (LTIP) is subject to two performance measures; Earnings Per Share (EPS) and Total Shareholder Return (TSR). Adjustments to awards granted to executives were made last year following the rights issue undertaken in April 2018. For the financial year ended 30 June 2019, 16.5% of the base 2016 LTIP vested on 16 November 2019 and a payout of 57% in respect of the ABP for the year ended.

This year also saw a change in the Executive Board, with Peter Truscott leaving the Company on 26 March 2019. Peter was succeeded as Chief Executive by Graham Prothero, formerly Finance Director, and with the role of Finance Director taken over by Andrew Duxbury, an experienced internal hire who previously served as Finance Director of Linden Homes. Reflecting these changes, the Remuneration Committee considered both the leaver arrangements for Peter Truscott and the new remuneration arrangements for each of Graham Prothero and Andrew Duxbury in the context of following Galliford Try's approved Directors' Remuneration Policy.

The Committee's decisions in each of these areas are detailed in the relevant sections on pages 71 and 72 of the 2019 Annual Report and were communicated to the Group's largest shareholders earlier this year.

Application of Remuneration Policy in 2019/20

As reported in the 2018 Annual Report, there were no changes to the Remuneration Policy (Policy) for 2018/19. Shareholders overwhelmingly approved the current Policy at the 2017 AGM and this policy was adopted and implemented throughout the reporting period. As the Policy will approach its third year since shareholder approval was given, the Committee will review the Policy in line with the investor guidance and market developments as well as the requirements of the 2018 Code.

The key elements of how the Policy will be applied in the current financial year are set out below:

- **Base salaries:** increases in line with workforce.
The Committee continues to monitor and review pay and conditions across the Group and in line with the external market. The wider executive population beneath the senior team is also reviewed. Merit-based salary increases were awarded to staff on review in May 2019, and a budget of 3% was provided to the

Group to cover all increases. Graham Prothero and Andrew Duxbury's salaries were increased by 3% in line with average increases across the workforce with effect from 1 July 2019.

- **Annual Bonus Plan:** no changes to metrics or structure.
As in the last three financial years, performance against the financial metrics will be measured on a pre-exceptional basis. Health and safety is a priority and will continue to feature as a downwards adjuster. Following completion of the sale of the Housebuilding and Partnerships businesses to Bovis Homes (expected on 3 January 2020), performance metrics for the second half of the 2019/20 financial year will be reviewed by the Committee within the context of the Continuing Group.
- **LTIP:** In light of the offer from Bovis Homes Group plc to acquire the Linden Homes and Partnerships & Regeneration businesses from Galliford Try announced on 10 September 2019, the Committee decided to defer any LTIP award for 2019 – 2022 until later in the 2019/20 financial year.

Any award will be within the current approved Remuneration Policy and may include, for example, applying additional or different performance metrics or targets, or modifying the structure of awards. Relevant details will be included in next year's Directors' Remuneration Report and, in respect of the LTIP grant, in the market announcement at the time of any grant during the 2019/20 financial year.

Shareholder consultation and voting analysis

The Committee actively consults with relevant institutional shareholders regarding, and in advance of, substantial changes to the Remuneration Policy or individual executive director salary packages. The most recent disclosure took place in June 2019 on the Committee's decisions regarding executive director remuneration in light of changes to the roles of Chief Executive and Finance Director. Certain sections of the Annual report on Remuneration on pages 70 to 77 of the 2019 Annual Report have been subject to audit.

Wider workforce remuneration

The Committee takes due account of remuneration structures elsewhere in the Group when setting pay for the executive directors. Consideration is given to the overall salary increase budget and the incentive structures that operate across the Company, taking into account available market sector data obtained through the Paydata Property and Construction Consultancy Salary Survey and other benchmarking pay and benefits data, Government policies and advice from the executive management team. The wider total package on offer remains competitive at all levels, however, the Committee is mindful of the feedback from key stakeholders across the Group that improvements could be made to the visibility and flexibility of some of the wider benefits offered to staff.

The Group has offered an annual Sharesave Scheme to all eligible employees with more than one months' service since 2015 and is pleased with the participation rates across the business over the last three years. As part of its review of the Remuneration Policy for the 2019/20 financial year, the Committee intends to reduce Company pension contributions for executive directors over time so that they are aligned with those offered across to the wider workforce.

In terms of strengthening the 'employee voice' in the boardroom, the Board has established an Employee Forum.

The purpose of the Employee Forum is to:

- provide a voice for employees and enable better engagement with the workforce;
- strengthen the internal communication process, providing information exchange and representation of employee groups and their views;

- act as a representative body for communication with and feedback from employees about enhancements and changes that may affect their employment;
- seek suggestions and ideas from employees and provide feedback on developments and proposals; and
- champion change and support good governance.

The Employee Forum is chaired by Terry Miller, Senior Independent Non-Executive Director. Further information can be found on page 49 of the Strategic report contained in the 2019 Annual Report.

Composition of Remuneration Committee and attendance

Membership of the Committee is detailed on page 54 of the 2019 Annual Report. The Committee was chaired by Terry Miller who was Interim Chair of the Committee until 13 February 2019, when Marisa Cassoni was appointed the new Chair of the Remuneration Committee. During the financial year, the other members were Gavin Slark, Jeremy Townsend and Peter Ventress. The General Counsel and Company Secretary acts as secretary to the Committee. The Chief Executive has a standing invitation to attend all Committee meetings, although each meeting commences with the non-executive directors meeting without executive management present. No director, or the General Counsel and Company Secretary, is present when his or her own remuneration is being considered.

Remuneration advice and advisers

The Committee is informed of key developments and best practice in the field of remuneration and regularly obtains advice from independent external consultants, when required, on individual remuneration packages and on executive remuneration practices in general. New Bridge Street (NBS) was the Committee's remuneration consultants, from their appointment by the Committee in January 2011 until March 2019. In December 2018, the Committee undertook a competitive tender process and five consultants, including NBS, were invited to tender as advisor to the Committee. Shortlisted firms were invited to attend a detailed interview with members of the Committee. Following a thorough and transparent review, the Committee recommended the proposed appointment of Mercer Kepler (Mercer) as remuneration consultants to the Board. The Board considered the Committee's recommendation and selected Mercer as remuneration consultants with effect from 1 March 2019.

Services provided to the Committee by NBS encompassed remuneration guidance, regulatory guidance, shareholder trends and share plan-related consultancy. Fees paid to NBS for services provided to the Committee during the financial year were £35,392 (2018: £65,632).

Following their appointment as remuneration consultants, services provided to the Committee by Mercer encompassed similar services to those provided by NBS. Fees paid to Mercer during the financial year were £23,000.

Mercer does not provide any other services to the Group, although Mercer is part of Marsh & McLennan Companies, a subsidiary of which JLT Specialty Limited, provide insurance broking services to the Group. The Committee is satisfied that these services do not impinge on the independence of Mercer. Furthermore, Mercer is a signatory to the Remuneration Consultants' Code of Conduct, which requires that its advice be objective and impartial.

The General Counsel and Company Secretary also advises the Committee as necessary and, where appropriate, makes arrangements for the Committee to receive independent legal advice at the request of the Committee Chair.

December 2019