

21. Directors' Remuneration Report

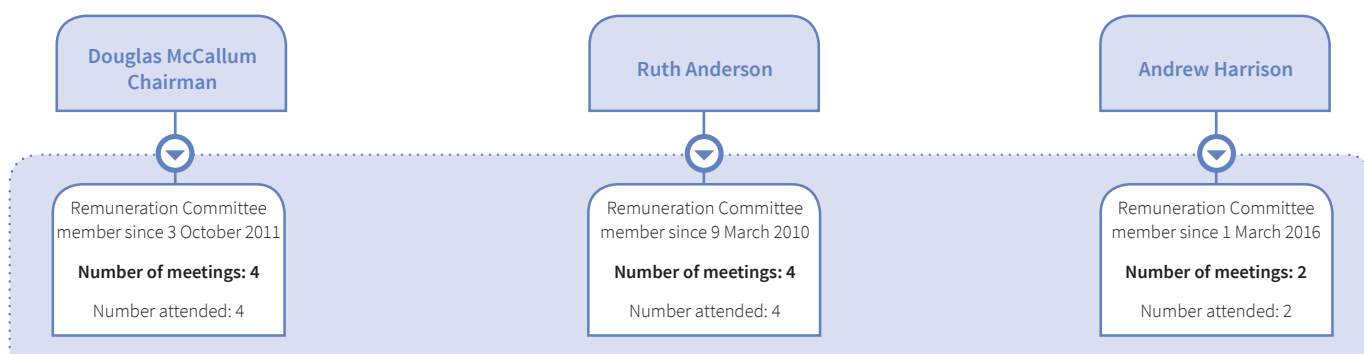
Description of the Remuneration Committee

This section of the Directors' Remuneration Report describes the membership of the Remuneration Committee, its advisers and principal activities during the period. It forms part of the Annual Report on Remuneration section of the Directors' Remuneration Report.

Membership

The current membership of the Remuneration Committee, together with appointment dates, is set out below.

As required under the terms of reference, the Remuneration Committee has three members, all of whom are independent Non-Executive Directors, and holds a minimum of two meetings a year.



The biography of each member of the Remuneration Committee is set out in the Board of Directors section on pages 48 and 49.

Other attendees at the Remuneration Committee meetings included the Chairman of the Board, the Chief Executive Officer, the Chief Financial Officer, the People Director and the external adviser to the Remuneration Committee, Deloitte LLP. The Chairman and the Executive Directors and other attendees are not involved in any decisions of the Remuneration Committee and are not present at any discussions regarding their own remuneration. The Deputy Company Secretary is secretary to the Remuneration Committee.

During the year, the Remuneration Committee composition changed as a result of the retirement of David Grigson and the subsequent appointment of Non-Executive Director Andrew Harrison, effective from 1 March 2016. David Grigson attended three meetings during the period, out of a possible three meetings, before his retirement from the Remuneration Committee on 4 May 2016.

External Advice

During the period, the Remuneration Committee and the Company retained independent external advisers to assist them on various aspects of the Company's remuneration and share schemes as set out below:

| Adviser | Retained by | Services Provided to the Remuneration Committee | Other Services Provided |
|-------------------|------------------------|--|--|
| Deloitte LLP | Remuneration Committee | Executive remuneration advice including assisting in a benchmarking review of Executive Director remuneration. | Separate teams engaged by the Company to advise on a range of Company tax, share schemes and accounting matters, including transaction advice. See also on page 79 regarding the auditor tender process. |
| Slaughter and May | Company | None | Share schemes, tax and employment law advice as well as general UK legal advice in respect of a number of the Company's remuneration matters, including vesting of the LTIP and the Chairman's Share Matching Award and changes to the LTIP and GIP rules. |

Deloitte LLP Re-appointment Review and Tender Process

The Remuneration Committee considered the re-appointment of Deloitte LLP. This review took into account Deloitte's effectiveness, independence, period of appointment and fees. Deloitte LLP were appointed by the Remuneration Committee in 2012 following a tender process led by the then Remuneration Committee Chairman.

The Remuneration Committee reviewed the performance of Deloitte LLP based on feedback from members of the Remuneration Committee and management. The criteria for assessing their effectiveness included their understanding of business issues and risks, their knowledge and expertise and their ability to manage expectations. The Remuneration Committee concluded that the performance of Deloitte LLP remained effective.

The Remuneration Committee considered the independence and objectivity of Deloitte LLP. Deloitte LLP have provided assurances to the Remuneration Committee that they have effective internal processes in place to ensure that they are able to provide remuneration consultancy services independently and objectively. Deloitte LLP confirmed to the Company that it is a member of the Remuneration Consultants Group and as such operates under the code of conduct in relation to executive remuneration consulting in the UK. The Remuneration Committee is, following its annual review, satisfied that Deloitte LLP has maintained independence and objectivity.

For the period, £25,000 in advisory fees were paid or payable to Deloitte LLP for services provided to the Remuneration Committee.

Following the review by the Remuneration Committee, it was agreed that Deloitte LLP should be re-appointed.

Subsequently, the Remuneration Committee noted the proposed appointment of Deloitte LLP as external auditors of the Company from the 2017 Annual General Meeting (for further information see pages 62 and 63). Deloitte would not continue as adviser to the Remuneration Committee from then and accordingly the Remuneration Committee agreed to tender the role. The Remuneration Committee agreed a tender process, which is expected to conclude in April 2017.

Other Support for the Remuneration Committee

In addition to the external advice received, the Remuneration Committee consulted and received reports from the Company's Chief Executive Officer, the Chief Financial Officer, the Chairman, the People Director and the Deputy Company Secretary. The Remuneration Committee is mindful of the need to recognise and manage conflicts of interest when receiving views and reports from, or consulting with, the Executive Directors or members of senior management.

Principal Activities of the Remuneration Committee During the Financial Year

The Remuneration Committee has, under its terms of reference, been delegated responsibility for setting remuneration for all of the Executive Directors, the Chairman and the Company Secretary. This is outlined on page 50. In line with its terms of reference, the Remuneration Committee's work during the period included the following:

- approving the 2015 Directors' Remuneration Report;
- reviewing performance under the 2015 AIP and consideration of any bonuses payable;
- approving the 2016 AIP performance targets;
- approving the 2016 LTIP awards and performance targets;
- reviewing performance against LTIP awards;
- receiving executive remuneration advice from Deloitte LLP in respect of a range of matters considered by the Remuneration Committee during the year;
- receiving a report on Group-wide and management remuneration for 2016;
- consulting the Chief Executive Officer and the Chairman on performance and remuneration of the Executive Directors;
- receiving reports from Deloitte on senior executive pay, market themes and trends;
- receiving a report on the Group's share schemes and plans for 2017;
- receiving a report on shareholder feedback on the 2015 annual report and 2016 annual general meeting;
- approving a new invitation under the Sharesave scheme for 2017;
- approving amendments to the LTIP rules to allow for holding periods;
- reviewing the Remuneration Committee's performance and terms of reference;
- reviewing the performance of Deloitte LLP; and
- agreeing a process and timetable for a tender of the role of external remuneration consultants.

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The Remuneration Committee's work also included monitoring and considering the level and structure of remuneration for the Management Committee. Ultimate decision-making responsibility for the remuneration of the Management Committee lies with the Chief Executive Officer. This approach still gives the Remuneration Committee necessary visibility of senior management remuneration to enable it to formulate appropriate policy and make decisions regarding Executive Director remuneration, but allows the Chief Executive Officer, who is best placed to make remuneration decisions about the management team, the flexibility to do so. The Remuneration Committee believes this practice is beneficial to the Company and supports the Code principle D.2.

The Remuneration Committee carried out a review of its terms of reference during the period, which did not result in any changes.

In addition to the activities of the Remuneration Committee, the Executive Directors and the Chairman reviewed the remuneration arrangements of the Non-Executive Directors.

Remuneration Policy Report

Introduction

This part of the Directors' Remuneration Report sets out the Company's policy for the remuneration of its Directors.

Shareholders will be asked to approve the new Directors' Remuneration Policy at the AGM on 3 May 2017 and it will, if approved, apply to payments made from this date. Until that time the 2014 Policy will continue to apply. The new 2017 Policy is intended to apply for a period of three years from the AGM.

A copy of the 2014 Policy can be found in the Company's 2015 annual report on www.ocadogroup.com.

Proposed Policy for Director Remuneration

During the period, the Remuneration Committee carried out a thorough review of the current remuneration policy for Executive Directors. The Remuneration Committee concluded that there were few parts of the existing remuneration policy that required change and it adhered to the remuneration principles (outlined below) and that it remained relevant and appropriate in incentivising management to achieve the Group's strategic objectives. However, in order to bring the Directors' remuneration policy further in line with governance best practice and with the expectations of shareholders and representative investor bodies, two main changes are proposed. The proposed changes are set out in the table below, together with an explanation for such proposed changes.

| Element of remuneration/policy | Proposed 2017 Policy | 2014 Policy |
|---------------------------------|---|---|
| LTIP holding period | <p>Introduction of an additional holding period of two years (or longer if the Remuneration Committee determines) from the third anniversary of the date of grant.</p> <p>This change helps increase alignment between the interests of executives and long-term shareholders and further balance the shorter-term focus of the annual bonus.</p> | No additional holding period after completion of three-year performance period. |
| Shareholding requirement | <p>Introduction of an increased level of expected shareholding to 200% of base salary for all Executive Directors.</p> <p>Change to allow the minimum shareholding to be met over five years from the date of Director appointment.</p> | <p>Minimum holding of 150% of base salary for the Chief Executive Officer and 100% for other Executive Directors.</p> <p>The holding can be built up over three years from appointment.</p> |

Taken together, the Remuneration Committee believe that these changes help to increase alignment between the Group's management and its shareholders. The 2017 Policy continues to support the long-term success of the business and ensure that the Group's management are driving sustainable shareholder value in the long-term.

No changes are proposed for the remuneration policy for the Chairman and the Non-Executive Directors.

Remuneration Principles for Senior Executives

The Directors' Remuneration Policy is underpinned by the following remuneration principles:

- Support long-term success of the business and sustainable long-term shareholder value.
- Be aligned to the business strategy and achievement of planned business goals.
- Be compatible with the Group's risk policies and systems.
- Link maximum payout to outstanding results.
- Ensure that performance-related pay constitutes a significant proportion of the overall package.
- Provide a balance between attracting, retaining and motivating the right calibre of candidates, and taking into account the entrepreneurial culture of the business.
- Encourage a high performance culture.