

POLICY REPORT

Remuneration and components

The committee reviews the Company's remuneration philosophy and structure each year to ensure that the remuneration framework remains effective in supporting the Company's strategic objectives and fairly rewards individuals for the contribution that they make to the business, having regard to the size and complexity of the Group's operations and the need to motivate and attract employees of the highest calibre.

The policy on remuneration of directors (the "Policy") is set out on [the following pages 65 to 70](#). A binding resolution will be put to shareholders at the annual general meeting to approve the Policy which, if approved, will take effect immediately following the ~~annual~~ general meeting on ~~16 October 2014~~ [22 April 2015](#).

The performance of Rank is dependent upon the quality of its directors, senior executives and employees and therefore the Group seeks to attract, retain and motivate skilled directors and senior executives of the highest calibre, without paying more than is necessary. In order to attract such individuals the committee needs to ensure that the remuneration packages properly reflect an individual's duties and responsibilities, are appropriate and competitive, sensitive to pay elsewhere within the Group and directly linked to performance.

Committee approach to setting pay policy

The committee intends that the base salary and total remuneration of executive directors should be in line with market median. Remuneration is benchmarked against rewards available for equivalent roles in suitable comparator companies, with the aim of paying neither significantly above nor below the median for each element of remuneration at par target performance levels.

The committee also considers general pay and employment conditions of all employees within the Group and is sensitive to these, to prevailing market and economic conditions and to governance trends when assessing the level of salaries and remuneration packages of executive directors and other members of the executive committee.

The total remuneration package links corporate and individual performance with an appropriate balance between short- and long-term elements, and fixed and variable components. The policy is designed to incentivise executives to meet the Company's key objectives, and so a significant proportion of total remuneration is performance related.

The committee considers that the targets set for the different components of performance-related remuneration are both appropriate and sufficiently demanding in the context of the business environment and the challenges facing the Group.

Future policy table

The key components of executive directors' remuneration, as applicable from ~~16 October 2014~~, 22 April 2015, are summarised below:

<u>Component</u>	<u>Purpose and link to business strategy</u>	<u>Mechanics</u> <u>Operation and performance framework</u>	<u>Maximum</u>
Base salary	To attract and retain skilled, high calibre individuals to deliver the Group's strategy.	<p>Base salaries are reviewed annually and are appropriately set to reflect</p> <ul style="list-style-type: none"> • the role's scope, responsibility and accountabilities; • market data; • general rates of increase across the Group, and • the performance and effectiveness of the individual. <p>Any increase will take effect on 1 January of the following year.</p>	Ordinarily any increases in executive directors' base salaries will be limited to those received by the wider workforce during the year (except for reasons of promotion or salary being determined to be significantly out of line with market median).

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<u>Component</u>	<u>Purpose and link to business strategy</u>	<u>Mechanics</u>	<u>Maximum</u>
Insured and other benefits	Insured and other benefits are offered to executive directors as part of a competitive remuneration package.	<p>Insured benefits comprise private healthcare insurance for executive directors and dependants, life assurance and permanent health insurance.</p> <p>Other benefits comprise a cash car allowance and the fuel cost of all mileage (private and business). The amount of the cash car allowance is reviewed periodically by the committee in the light of market conditions.</p> <p>The committee retains the discretion to offer relocation assistance in the form of an allowance or otherwise to support the movement of executive talent across the business. If provided, the committee aims to ensure payments are not excessive and support business needs. As such, relocation assistance will be reviewed on a case-by-case basis taking into account factors such as the individual's circumstances and the geographies involved, meaning that there is no prescribed formula for calculating the level or structure of payments.</p>	<p>It is anticipated that the provision of insured and other benefits will not exceed 10% of salary.</p> <p>The committee may exceed this should the cost of the benefits provided change in accordance with market conditions or in the event of the payment of relocation assistance.</p>
Retirement provisions	Rewards sustained contribution and encourages retention.	<p>Executive directors are automatically enrolled in The Rank Group Workplace Pension Scheme (the "Pension Scheme") in accordance with the Company's obligations under the Pensions Act 2008. The Company will contribute into the Pension Scheme at the rate of 10% of the executive director's base salary. If the executive director chooses to opt out of his automatic enrolment in the Pension Scheme he is entitled to receive a cash allowance of an annual amount equivalent to 10% of basic salary.</p> <p>The committee retains the discretion to honour all contractual pension arrangements agreed prior to the application of this Policy. Details of such arrangements are disclosed in the Annual Remuneration Report.</p>	<p>For all new appointments the maximum pension contribution (defined contribution or cash supplement) will be 10% of base salary.</p> <p>Legacy arrangements to be honoured (% of salary): FD - 15%</p>

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<p>Annual bonus</p>	<p>Motivates the achievement of annual strategic, financial and personal performance. Rewards individual contribution to the success of the Company.</p>	<p>Rank operates an annual cash bonus scheme in which executive directors participate. Under the scheme an annual bonus pool is created based on the return on shareholder funds over a one-year period.</p> <p>The bonus plan operates on a pool system with sharing rates varying based on performance above a threshold. The mechanics of the plan are set by the committee at the start of the year with payment made after year end following the committee’s assessment of performance relative to targets. The primary performance measure is the return on shareholder funds, as these determine the size of the pool. The allocation of the pool between individuals is at the committee’s discretion in light of the achievement of annual financial and strategic goals as well as individual performance. A full description of the performance measures in place and how this determines the bonus pool will be provided in the Annual Remuneration Report: annual remuneration report.</p> <p>The scheme operates a threshold level of performance below which no bonus is paid. However, the resulting pay-out, as a percentage of salary, will vary year-on-year in line with bonus pool funding.</p> <p>The measures governing the allocation of the pool to executive directors will be set and disclosed retrospectively on an annual basis, to the extent this is not commercially sensitive.</p> <p>The annual bonus plan is discretionary and the committee reserves the right to adjust payments up, or down. Any such adjustment would only be in exceptional circumstances which would be outlined in the relevant year’s annual remuneration report. Clawback provisions do not apply to the annual bonus plan.</p> <p>To allow the committee to assess the quality of earnings over the year and to introduce an element of retention into the scheme any cash bonuses earned by the executive directors will be subject to a six-month deferral period and will be paid in the December following the 30 June financial year end.</p>	<p>CEO: 100% of base salary FD: 80% of base salary</p>
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<p>Long-term incentive plan</p>	<p>The long-term incentive plan is intended to align the interests of the executive directors and shareholders through the creation of shareholder value over the long term.</p>	<p>The Rank Group Plc 2010 Long-Term Incentive Plan is currently the only long-term equity-based incentive scheme in place for the executive directors and other senior executives.</p> <p>Executive directors may receive contingent share awards which have the ability to vest after a three-year period based on the achievement of specified performance targets. The committee may apply a further holding period to all or part of the award to further align directors’ interests with those of shareholders.</p> <p>The Committee will determine measures and targets at the beginning of each cycle to ensure continuing alignment with strategy. Performance targets may relate to both financial and non-financial measures linked to the company’s long-term business strategy, including <u>but not limited to</u>:</p> <ul style="list-style-type: none"> • Group EBITDA • Group profit after tax • Group annual active customers • <u>Group digital revenue</u> • <u>Group ROCE</u> • Strategic objectives of the Group <p>The following amounts will vest in accordance with performance: There is no threshold level of performance under the plan. Maximum: 100% Other points on the vesting schedule will be determined by the committee when the performance targets are set.</p> <p><u>At the end of the performance period, the committee will have absolute discretion to determine the extent to which the awards will vest, if at all, on account of underlying company performance. If discretion is applied, the level and reasons for its application will be fully disclosed in the following year’s annual report on remuneration.</u></p> <p><u>Clawback and malus provisions will apply to awards made under the plan.</u></p>	<p><u>PerNormal maximum per annum award levels (% of salary)</u> CEO: 200% FD: 133%</p> <p>(to date, three year block awards have been granted to the CEO and FD at 600% and 400% of salary respectively)<u>An exceptional maximum per annum award level of 400% of salary is also effective under the policy. The committee do not intend to use the exceptional maximum beyond the first year of the policy where, for technical reasons, a higher maximum is required _____ to implement the new long- term incentive plan. In this first year the actual value, at grant, of active awards will not exceed the normal maximum levels specified above. More detail will be available in the Annual Remuneration Report.</u></p>
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Additional notes to the Policy table

Setting of performance measures and targets

The committee reviews and selects performance measures at the beginning of each award cycle under both the annual bonus plan and the long-term incentive plan, being informed by the short- and long-term priorities of the Group at the time. The committee considers the Group's key performance indicators and strategic business plan when selecting measures and calibrating targets. Details of these are included in the Annual Report each year. Factors that the Committee may consider include the benchmark return rate on shareholder funds, strategic plan, the annual budget, analysts' forecasts, economic conditions, individuals' areas of responsibilities, the committee's expectations over the relevant period and input from the major shareholder.

Differences in the remuneration policy for executives relative to the broader employee population

The remuneration policy in place for the executive directors is informed by the structure operated for the broader employee population. Pay levels and components vary by organisational level but the broad themes and philosophy remain consistent across the Group:

- salaries are reviewed annually with regard to the same factors as set out in the Policy table for executive directors;
- consistent with executive directors, senior executives together with general and some operational managers of our business units participate in the annual bonus plan with bonus pool funding dependent on profit performance of the Group or brand depending on their level;
- members of the senior management team can be considered for awards under the long-term incentive plan. This is intended to encourage share ownership in the Company and align the management team with the strategic business plan; and
- eligibility for and provision of benefits and allowances varies by level and local market practice. It is standard for senior management team members to receive a company car allowance. Pension provision below board level is overall at lower contribution rates, with the majority of Rank's eligible employees now being automatically enrolled into the NEST Workplace Pension Scheme. However, a significant proportion of employees remain in Rank's Stakeholder Pension Plan, where the standard contribution rates are the same as those offered to board-level members.

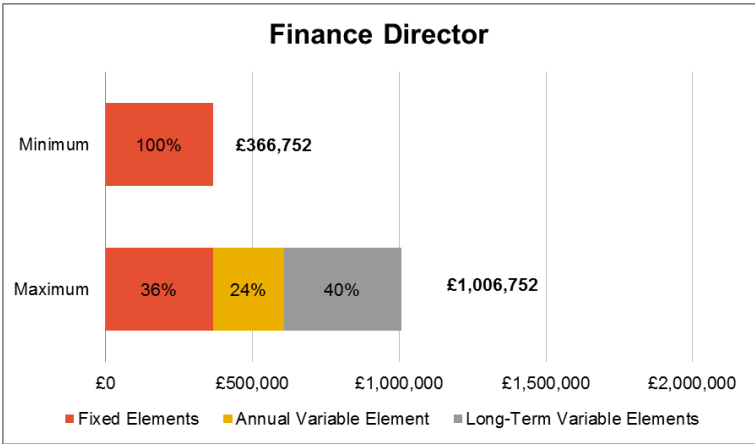
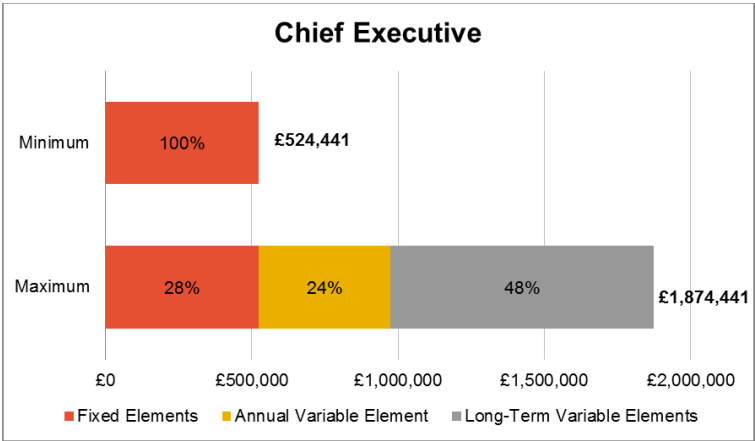
Potential reward opportunities at different levels of performance

The graphs below exhibit remuneration Policy for existing executive directors and show indicative total remuneration levels under different performance scenarios. The remuneration policy results in a high portion of total remuneration being dependent on performance with a majority tied to the long-term performance of the Group.

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The annual bonus and long-term incentive schemes do not operate an ‘on-target’ award level. Under the bonus scheme awards will depend on bonus pool funding and as such are variable year-on-year. A maximum cap is in place under the scheme. Under the long-term incentive plan performance is considered against each selected metric independently with committee discretion applied as to the level of overall vesting. Given the structure of incentive arrangements we have not provided an ‘on-target’ scenario in the following charts, rather a minimum and maximum only, which better reflects the operation of the incentive schemes at Rank. The two performance scenarios are calculated as follows:

- **Minimum** - performance below target which results in no variable remuneration being payable.
- **Maximum** - 100% of the maximum annual cash bonus and full vesting of the long-term incentive award achieved. Normal maximum awards as described under the policy are presented.



Notes to graph

- Benefit levels are assumed to be the same as those provided during the 2013/14 financial year. As Henry Birch became Chief Executive during 2013/14, his benefit levels have been annualised.
- The long-term incentive award values depicted in the charts above represent the annualised opportunity to directors under the currently-operated remuneration policy.
- ~~The graph depicting policy for the chief executive represents policy as applied to Henry Birch, the new chief executive of the Company. Ian Burke, the former chief executive, now acts as chairman and is not subject to the executive director remuneration policy going forward.~~
- No account is made for share price growth or the payment of dividends.
- No element of pay for the chairman or non-executive directors varies with performance and so no separate graphs are included.

Approach to recruitment remuneration

The committee will apply the existing remuneration policy to new executive directors in respect of all components of remuneration. As such, the maximum level of variable remuneration which may be granted is 300% of salary on an annualised basis for the CEO and 213% of salary on an annualised basis for other executive directors.

The committee may also make an additional award of cash or shares on the appointment of a new director in order to compensate for the forfeiture of an award from a previous employer. Such awards would be made on a comparable basis, taking account of performance, the proportion of the performance period remaining and the type of award. The committee will set appropriate performance conditions and vesting would be on the same time horizon as the forfeited award.

For both internal and external appointments, the committee may agree that the Company will meet certain relocation expenses, as set out in the Policy table.

New non-executive directors will be appointed on the same remuneration elements as the existing non-executive directors. It is not intended that variable pay, day rates or benefits in kind be offered.

Approach to termination payments

The Company does not believe in reward for failure. The circumstances of a director's termination (including the director's performance) and an individual's duty to mitigate losses are taken into account in every case. Rank's policy is to stop or reduce compensatory payments to former executive directors to the extent that they receive remuneration from other employment during the compensation period. Compensatory payments are limited to 12 months' base salary, cash car allowance and defined pension contributions (or salary supplements).

Annual bonus awards will lapse in their entirety in the event an individual is no longer employed or serving their notice period at the time of pay-out.

If the holder of a long-term incentive award ceases, for any reason, to be an executive director or employee of a Rank Group company, that holder's long-term incentive award shall lapse immediately upon him ceasing to be an executive director or employee. However, the committee may in its absolute discretion allow awards to continue until the normal vesting date and be satisfied, subject to the achievement of the relevant performance conditions. In such circumstances, awards vesting will be prorated on a time apportioned basis, unless the committee determines otherwise. Any such discretion in respect of leavers would only be applied by the committee to 'good leavers' where it considers that continued participation is justified, for example, by reference to past performance to the date of leaving.

Change of control

In the event of a change of control, the committee has absolute discretion as to whether and on what basis awards should vest under the long-term incentive plan. The committee would normally allow awards to vest upon a change of control subject to satisfaction of performance conditions and reduction on a time apportioned basis.

Executive directors' service agreements

It is the Company's policy that executive directors have rolling service agreements.

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The current executive directors' service contracts contain the key terms shown in the table below:

Provision	Detailed terms
Remuneration	<ul style="list-style-type: none"> ▪ Base salary, pension and benefits ▪ Cash car allowance ▪ Private health insurance for director and dependants ▪ Life assurance ▪ Permanent health insurance ▪ Participation in annual bonus plan, subject to plan rules ▪ Participation in long-term incentive plan, subject to plan rules ▪ 25 days' paid annual leave
Notice period	12 months' notice from both the Company and the director
Termination payment	<p>Payment in lieu of notice equal to:</p> <ul style="list-style-type: none"> ▪ 12 months' base salary ▪ Cash car allowance ▪ Pension supplement <p>All of the above would be paid in monthly instalments, subject to an obligation on the part of the director to mitigate his loss such that payments would either reduce, or cease completely, in the event that the director gained new employment.</p>
Restrictive covenants	During employment and for nine months after leaving.

Service agreements outline the components of remuneration paid to the individual director but do not prescribe how remuneration levels may be adjusted from year to year.

The executive directors have served on the board for the periods shown below and have service agreements dated as follows:

<u>Position</u>	<u>Name</u>	<u>Date of contract</u>	<u>Length of board service as at the most recent financial year end - 30 June 2014</u>
Chief executive	Henry Birch	24 April 2014	2 months
Finance director	Clive Jennings	27 July 2011	2 years 11 months

Chairman

The Company separated the role of chairman and chief executive with effect from 6 May 2014.

The chairman, Ian Burke, has a letter of engagement dated 22 April 2014 which is effective from 6 May 2014 and which replaced his service agreement dated 6 March 2006 in respect of his former role as chief executive. He has initially been engaged as non-executive chairman for a period of three years. His appointment is terminable without compensation on three months' notice from either side. The chairman receives a fee of £150,000 per annum which includes his chairmanship of the nominations and finance committees. This fee will be reviewed annually by the committee, with reference to the size and complexity of the role and external market comparisons in the final quarter of each calendar year with any increase taking effect on 1 January. The chairman is not entitled to any benefits in kind and is not eligible for pension scheme membership, bonus or incentive arrangements.

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Non-executive directors’ remuneration

The fees for the non-executive directors are generally reviewed and determined by the finance committee in the final quarter of each calendar year to reflect appropriate market conditions.

Non-executive director annual base and additional fees ~~for the year ended 30 June 2014~~effective 1 January 2015 comprise:

▪ Base non-executive annual fee	£ 40 <u>46</u> ,000
▪ Audit committee chair	£8,500
▪ Remuneration committee chair	£7,500
▪ Senior independent director	£2,500

The base fee includes membership of the audit, remuneration, nominations and finance committees. Non-executive directors are not entitled to any benefits in kind and are not eligible for pension scheme membership, bonus or incentive arrangements.

The Company reserves the right to review fee levels annually with reference to the size and complexity of the role and external market comparisons. Any increases to fee levels will be effective from 1 January the following year. The aggregate fees will not exceed the maximum permitted by the Company’s articles of association, which is currently £500,000.

Non-executive directors have letters of engagement setting out their duties and the time commitment expected. They are appointed for an initial period of three years, after which the appointment is renewable by mutual consent at intervals of not more than three years. In accordance with the Code, all directors offer themselves for annual re-election by shareholders. Details of non-executive directors’ appointments, which are terminable without compensation, are set out in the table below:

<u>Non-executive director</u>	<u>Original date of appointment</u>	<u>Date of letter of engagement</u>	<u>Total length of service as at the most recent financial year end - 30 June 2014</u>
Owen O’Donnell	11 September 2008	20 August 2008	5 years 9 months
Tim Scoble	22 April 2010	17 May 2010	4 years 2 months
The Earl of Kilmorey	1 May 2012	29 March 2012	2 years 2 months
Shaa Wasmund	1 November 2012	26 September 2012	1 year 8 months

Shareholder engagement

~~The table on page [XX] shows the voting outcome for the 2012/13 directors’ remuneration report at the 2013 annual general meeting, both including and excluding the Company’s majority shareholder.~~

~~The voting outcome for the 2013 directors’ remuneration report, although disappointing, was not wholly unexpected given the feedback received from the institutional shareholder consultation that had taken place regarding proposals for the 2012/13 long term incentive award. Whilst the committee had been mindful of the reservations of some shareholders with regard to ‘end to end’ schemes (also known as ‘block’ awards), the committee had also considered the views of the~~

~~majority shareholder. The majority shareholder was of the view that Rank's historical long term incentive awards based on incremental earnings per share targets were not incentivising management to deliver transformational growth and therefore superior returns for the benefit of all shareholders. The majority shareholder had experience elsewhere in its group of companies of 'end-to-end' schemes working well to deliver exceptional performance and urged the committee to consider the benefits to all shareholders of incentivising executives in a different way. The committee will be re-considering this approach in 2014 and anticipates undertaking a further shareholder consultation in the latter part of the 2014 calendar year for the purposes of implementing a new long term incentive scheme.~~

The voting results for the 2013/14 Remuneration Report were a marked improvement on the previous year and we thank shareholders for their support. The committee are encouraged by the shift in voting outcomes and are committed to further increasing the support received from all of our shareholders.

Feedback received from shareholders at the last AGM centred around the governance of our executive pay programs and structure of the LTIP. In response to these concerns we have taken several steps to optimise the arrangements in place. Specifically, following a comprehensive review of current arrangements we are proposing the introduction of a new LTIP at the General Meeting on [XX]. This will replace our current plan which will be cancelled and will lapse in full. The new LTIP, if approved, will include the following features:

- Clawback and malus provisions
- Longer-term vesting periods of 3, 4 and 5 years
- Re-alignment of performance metrics and weightings to our strategic plan

Following consultation with our major shareholders we have received largely positive feedback. However, some concerns remain, particularly regarding the use of a three-year block award. The committee feel strongly that this feature remains fit-for-purpose and will motivate the executive team to deliver value for shareholders over the longer-term. In particular we have received strong support for the plan by our major shareholder.

Subject to approval, the committee is proposing the implementation of the new LTIP at the General Meeting on 22 April 2015. We are committed to ongoing engagement with our shareholders and will continually review the remuneration policy to ensure that it remains fit-for-purpose and aligned with shareholder interests.

Statement of consideration of employment conditions elsewhere in the company

As described in the notes to the Policy table on page 8 the overarching themes of the Policy in place for executive directors are broadly consistent with those applied to the wider employee population. The committee does not use any comparison metrics when reviewing pay in relation to the wider employee population, other than the consideration of the general rates of increase across the Group, nor does it deem it to be appropriate to consult with employees on the remuneration policy for executive directors.