

2014 ANNUAL DIRECTORS' REMUNERATION REPORT

The vote on the directors' remuneration report at the Annual General Meeting held on 19 March 2015 was approved by 57.2% of those voting. Prior to the meeting, we had been contacted by IVIS and ISS suggesting that the explanations on the implementation of the remuneration policy were not as clear as we would have wished. In particular, it was not made clear that (a) the financial thresholds which provide the underpin for the personal objectives element of the annual bonus plan were set separately to the targets and threshold which applied to the earnings per share and operating cash flow elements of the bonus plan, and (b) that the Remuneration Committee has, historically, had discretion on the personal objectives element which it may exercise when it is convinced that special circumstances exist.

As a result of this feedback, the Remuneration Committee engaged with major shareholders in the run up to the Annual General Meeting to discuss any concerns they had. Whilst some shareholders were supportive, others expressed concerns with the possibility of some level of payout on the annual bonus plan even when financial performance was well below target. Other shareholders questioned the clarity of the disclosures in the remuneration policy in relation to the thresholds that could apply to the personal objectives element of the bonus plan and the extent of the discretions available to the Committee. Whilst the Committee is comfortable that these discretions are contained within the remuneration policy, it has noted these concerns and will seek to ensure that the disclosures are made clearer when the policy is next reviewed in 2017. Finally, one shareholder expressed concern over the use of a proforma earnings per share base, following the disposal of the European Munitions businesses, which has been utilised for the LTIPs awarded in 2014.

The Remuneration Committee intends to ensure there is increased clarity and transparency in the directors' remuneration report in future.

27 April 2015