

Remuneration Report

PLC



Mike Love

ANNUAL STATEMENT MADE BY THE REMUNERATION COMMITTEE CHAIRMAN

I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2018. This report has been prepared by the Remuneration Committee and is approved by the Board.

The Remuneration Committee seeks to make disclosures clear and transparent, taking into account the principles of the Quoted Companies Alliance Corporate Governance Code (the "QCA Code"). Each of the disclosures required by the QCA Code can be found at www.scisys.co.uk/who-we-are/corporate-governance.html. SCISYS Group PLC is quoted on AIM and Euronext Growth; it is not subject to schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. However, we aim to provide clarity in our disclosures. Full retrospective disclosure is provided in this report for 2018 Executive Director performance-related pay targets. We are mindful of increased shareholder interest in this area; we seek to implement remuneration policies promoting long-term value creation for the Group.

The Remuneration Committee has taken the commitment and calibre of individuals into account generally when setting remuneration awards for 2019. The responsibility for deciding on individual Director's remuneration rests with the Remuneration Committee alone and no Director is involved in deciding his or her own remuneration. The Remuneration Committee also considers the pay for senior managers.

Our remuneration policy remains to attract talent, to retain and incentivise high-quality individuals in order to implement our business strategy. Salary increases for 2019 are justified by the solid performance of the Group and further organic growth, increasing commitments required as a result of the scope and complexities of Director's roles. We believe that our remuneration policy promotes the long-term success of the Group. The remuneration of each Director is linked to the performance of the individual and the Group financial performance through base salary and performance-related pay, together with other benefits. There is an upper cap on all elements of remuneration and no bonus opportunities exceed 100% of salary. Performance-related elements should be transparent and stretching. The Remuneration Committee and the Board continue to balance reward with restraint.

I look forward to your support for the resolution seeking approval of the Remuneration Report at the forthcoming Annual General Meeting. ●

Mike Love
Remuneration Committee Chairman

10 April 2019

ROLE OF THE REMUNERATION COMMITTEE

The Remuneration Committee has responsibility for making recommendations to the Board on the remuneration packages of the Executive Directors, as well as monitoring the level and structure of remuneration for senior management, which includes:

- making recommendations to the Board on the Company's existing remuneration policy for Directors and senior staff, and overseeing long-term incentive plans (including share option schemes);
- ensuring basic remuneration is appropriate to the level of responsibility and adequate to attract and retain high calibre individuals;
- ensuring variable remuneration is appropriately linked with overall

- corporate performance; and
- aligning remuneration policy with current industry practice.

The Remuneration Committee has sole responsibility for deciding the remuneration for Executive Directors, divisional directors, directors of subsidiaries and managers of profit centres. It is sensitive to possible conflicts of interests when receiving views from Executive Directors about its proposals. No director is involved in deciding his or her own remuneration.

REMUNERATION POLICY

The table below shows how the remuneration policy is linked to overall Group strategy.

EXECUTIVE DIRECTORS

Element	Objective and link to strategy	Operation	Maximum potential value	Performance conditions
Base salary	Reflects level of responsibility and experience of the individual. Aids recruitment and retention and is set at a level to recruit suitable individuals. Maintains an appropriate balance between fixed basic income and variable pay, ensuring good risk management and no undue emphasis on variable pay.	Base salary is set annually on 1 January. Salary levels are reviewed on an annual basis by reference to comparable positions in similarly sized AIM/Euronext Growth listed companies. We do not depend on formulaic methods for determining this salary.	When considering any increases to base salaries in the usual course of events (as opposed to a change in scope of the role or responsibility), the Committee will take into consideration increases being given in comparable groups, pay and conditions of employees throughout the Group, and inflation.	Not applicable
Performance-related variable salary	The payment of performance-related pay is linked to the profitability of the Company and agreed key personal objectives, and drives short- and medium-term performance.	Cash payments. Executive Directors participate in an annual performance-related payment scheme. For short-term targets quarterly payments are made based on an assessment of progress towards the annual target. 25% is retained until the year-end accounts are completed to allow for any downturn in trading later in the year. Payments are made once the accounts for a quarter have been approved by the Board (i.e. Q1 payment is paid in May payroll, Q2 in Sep, Q3 in Nov and Q4 in Mar). Entitlements are assessed cumulatively so that under-performance in earlier quarters, which is subsequently recovered, will result in a catch up of payments. There is no repayment if the quarterly payments on account already made exceed the total due for the year. Variable pay linked to medium-term targets will be paid after the audited statutory accounts of SCISYS Group PLC for the last year of the respective medium-term period have been published. There are no claw-back or malus withholding provisions.	During 2018 the split of total variable pay between payments related to Company profitability (Performance Related Pay "PRP") and personal Key Performance Indicators (KPI) was 70%:30%. During 2018, 50% out of the 70% PRP element related to a short-term adjusted Group EBITA target (25%) and to a medium-term adjusted Group EBITA target (25%) averaged over the 3 year period 2016 to 2018. The short-term adjusted EBITA target for 2018 was £4.9m. This target is set and reviewed annually. The remaining 20% of the PRP was split between two targets, namely a short-term total revenue target (10%) and a medium-term total revenue target (10%). The short-term total revenue target for 2018 was £58.9m*. This target is set and reviewed annually. Personal KPI-based payments represented a maximum of 30% of the variable pay total for Executive Directors. Performance was reviewed in May/June and December by the Executives' peers.	Profitability linked to achievement of an adjusted Group EBITA target. Revenue performance was related to a total Group revenue target. KPI tied to individual objectives set for each Executive Director to achieve during the year.
Long-term incentive	Long-term incentives are awarded to align the interests of the Executive Director with shareholders and drive long-term performance.	Executive Directors received an annual allocation of share options. These are subject to vesting performance conditions to be met over a period of 3 years. The performance conditions have been chosen to align the long-term incentive to the continued performance of the business. There is no prescribed holding period following exercise.	Options awarded during 2018 were set at an option price of 163p. The maximum potential benefit is therefore linked to the upward movement in the share price at the time the Executive Director elects to exercise the option should the performance conditions be achieved at the end of the 3-year vesting period. The Option may be exercised between 3 and 10 years from the date it was granted, subject to performance conditions being met.	During 2018 the performance condition was tied to the long-term financial performance of the group based on growth in EPS and average adjusted pre-tax earnings over a 3-year period.
Pension	To provide competitive levels of retirement benefit.	The UK-domiciled Executive Directors are entitled to a Company pension contribution at a rate from 6.75% to 8.5% of pensionable pay to be paid into the defined contribution pension scheme open to all the Company's permanent employees. Pensionable pay is set at basic salary plus 10%. During 2018 Klaus Heidrich, as a German-domiciled Executive Director, received a separate pension contribution.	Not applicable	Not applicable

EXECUTIVE DIRECTORS (CONTINUED)

Element	Objective and link to strategy	Operation	Maximum potential value	Performance conditions
Other benefits	To provide competitive levels of employment benefits.	Benefits for Executive Directors principally comprise: medical insurance, death-in-service life assurance, permanent health insurance, car allowance/company car and fuel expenses and reasonable business expenses. They are reported for individual Directors below.	Not applicable	Not applicable

*An adjustment will be made to take into account the impact of IFRS 15.

Executive Directors' remuneration

The remuneration package of the Executive Directors includes basic salary, other benefits and performance-related pay. Details of the payments made to Executive Directors for the year ended 31 December 2018 are as follows:

Executive Directors	Annual Salary £	Performance related pay £	Benefits in kind £	Total 2018 £	Total 2017 £	Pension contribution 2018 £	Pension contribution 2017 £
David Jones	40,000	12,902	-	52,902	63,668	-	-
Chris Cheetham	130,800	44,714	3,049	178,563	162,747	10,230	9,804
Steve Brignall	116,800	40,805	2,757	160,362	147,961	8,453	8,134
Klaus Heidrich	154,315	106,180	5,699	266,194	244,151	19,540	18,516
Klaus Meng#	67,581	28,220	-	95,801	90,807	-	-
Total	509,496	232,821	11,505	753,822	709,334	38,223	36,454

Klaus Meng also received £94,000 remuneration for his duties as a director of subsidiary SCISYS Deutschland GmbH during 2018.

For completeness, Natasha Laird was appointed to the Board on 18 December 2018, however by mutual agreement her remuneration package as a Director will take effect from 1 January 2019 and will be reported in full in next year's annual report. Her annual salary in 2019 is £100,800 with performance-related pay of up to £20,000.

NON-EXECUTIVE CHAIRMAN AND NON-EXECUTIVE DIRECTOR

Chairman

Element	Objective and link to strategy	Operation	Maximum potential value	Performance conditions
Base salary	To attract a Chairman with the requisite skills and experience to perform this role.	Base salary is set annually on 1 January. Salary levels are reviewed on an annual basis by reference to comparable positions in similar sized AIM/Euronext Growth listed companies. The Chairman's salary is determined by the Remuneration Committee in consultation with the Executive Directors. We do not depend on formulaic methods for determining this salary. Base salary is not pensionable.	When considering any increases to base salaries in the usual course of events (as opposed to a change in scope of the role or responsibility), the committee will take into consideration increases being given in comparable groups, pay and conditions of employees throughout the Group and inflation.	Not applicable
Performance-related variable salary	The payment of performance-related pay is linked to profitability of the Company and the key strategic objectives and drives short-term and medium-term performance.	Cash payments. The Chairman participated in an annual performance related payment scheme covering a part of his total potential earnings. Quarterly payment arrangements are on the same terms as for the Executive Directors, as set out above. No clawback or malus withholding provisions apply.	During 2018 the split of total variable pay between payments related to Company profitability (Performance Related Pay "PRP") and personal Key Performance Indicators (KPI) was 70%:30%. During 2018, 50% out of the 70% PRP element related to a short-term adjusted Group EBITA target and to a medium-term adjusted Group EBITA target averaged over the 3-year period 2016 to 2018. The short-term adjusted EBITA target for 2018 was £4.9m. The remaining 20% of the PRP is split between two targets, namely a short-term total revenue target (10%) and a medium-term total revenue target (10%). The short-term revenue target for 2018 was £58.9m. Performance against the personal objectives of the Chairman was reviewed by the CEO in May and December.	Profitability linked to achievement of an adjusted EBITA target. Revenue performance was related to a total revenue target. Individual objectives for the Chairman to achieve during the year were set by the CEO.
Other benefits	To provide competitive levels of employment benefits.	Benefits for the Chairman principally comprise reasonable business expenses.	Not applicable	Not applicable

*An adjustment will be made to take into account the impact of IFRS 15.

Non-Executive Director

Element	Objective and link to strategy	Operation	Maximum potential value	Performance conditions
Base salary	To attract an independent Non-Executive Director with the requisite skills and experience to perform this role.	<p>Base salary is set annually on 1 January.</p> <p>Salary levels are reviewed on an annual basis by reference to comparable positions in similarly sized AIM/Euronext Growth listed companies.</p> <p>We do not depend on formulaic methods for determining this salary.</p> <p>The Non-Executive's salary is determined by the full Board.</p> <p>He was first appointed in January 2013 and reappointed on 1 January 2016 for a further 3-year term. His current appointment is on a rolling basis without a specific end date.</p>	When considering any increases to base salaries in the normal course of events (as opposed to a change in role or responsibility), the Board will take into consideration increases being given in comparable groups, pay and conditions of employees throughout the Group and inflation.	Not applicable
Other benefits	To provide competitive levels of employment benefits.	Benefits for the Non-Executive Director comprise reasonable business expenses.	Not applicable	Not applicable

Non-Executive remuneration

	Fees £	Benefits £	Performance-related pay £	2018 Total £	2017 Total £
Mike Love	34,000	-	12,902	46,902	44,854
David Coghlan	26,000	-	-	26,000	26,000
Total	60,000	-	12,902	72,902	70,854

The aggregate emoluments of the highest paid Director were £266,194 (2017: £244,151).

Significant remuneration policy changes

A previously reported bonus of up to £40,000 for Chris Cheetham, Klaus Heidrich and Steve Brignall, tied to an ambitious surplus increase in adjusted Group EBITA during the period 2016 to 2018, will not be paid, as this surplus was not achieved.

Service contracts

The Company's policy on Directors' service contracts is that they should be on a rolling basis without a specific end date. Under German law, unless the termination is caused by their default, on termination Directors are entitled to be compensated based on 24 months' salary. The service contracts provide for termination on

giving 12 months' notice. To align the service contracts of the UK resident Directors with those of the DE resident Directors, following a change of control causing the termination of their service contracts UK resident Directors are entitled to the equivalent of 24 months' salary (unless such termination resulted from their default or the previous poor performance of the Company, as decided in the sole discretion of the Remuneration Committee).

Under their letters of appointment, the Chairman and Non-Executive Director are entitled to receive 6 months' notice of termination of their employment.

Director	Effective Term	Notice period #
Steve Brignall	Rolling (with no fixed expiry date)	12 months by the Company and by the Director
Chris Cheetham	Rolling (with no fixed expiry date)	12 months by the Company and by the Director
Klaus Heidrich	Rolling (with no fixed expiry date)	12 months by the Company and by the Director
David Jones	Rolling (with no fixed expiry date)	12 months by the Company and by the Director
Klaus Meng	Rolling (with no fixed expiry date)	12 months by the Company and by the Director
Natasha Laird	Rolling (with no fixed expiry date)	12 months by the Company and by the Director

As the Board's policy is that service contracts of Executive Directors should provide for termination by SCISYS on no more than 12 months' notice.

DIRECTORS' INTERESTS IN SHARES

The Directors who held office at the end of the financial year reported having the following beneficial interests in the 25p ordinary shares of the Company as at the end of December 2018:

	Interest in ordinary shares		Total interest in HMRC-approved Company Share Option Plan (CSOP)		Total interest in Unapproved Share Option Plan		Total interest in shares	
	2018	2017	2018	2017	2018	2017	2018	2017
Mike Love	4,377,451	4,337,103	40,000	75,000	-	-	4,417,451	4,412,103
Steve Brignall	208,627	168,632	40,460	135,000	79,540	-	328,627	303,632
Chris Cheetham	194,271	114,978	18,404	135,000	61,596	-	274,271	249,978
David Jones	266,960	187,668	-	125,000	50,000	-	316,960	312,668
Klaus Meng	2,587,826	2,832,826	-	-	-	-	2,587,826	2,832,826
Klaus Heidrich	102,760	102,760	-	-	136,000	106,000	238,760	208,760
David Coghlan	106,276	6,276	-	-	-	-	106,276	6,276
Natasha Laird	164,001	N/A	9,000	N/A	N/A	N/A	173,001	N/A
Totals	8,008,172	7,750,243	107,864	470,000	327,136	106,000	8,443,172	8,326,243

Ordinary shares under option by Directors as at the end of December 2018 were as follows – all options have performance conditions applied:

	As at 1 January 2018	Granted	Exercised	Lapsed or forfeited	As at 31 December 2018	Date of grant	Date from which options can be exercised
Mike Love							
CSOP option price of 25p	35,000	-	35,000	-	-	Jan-09	2012
CSOP option price of 52p	20,000	-	-	-	20,000	Apr-10	2013
CSOP option price of 50.50p	20,000	-	-	-	20,000	Apr-11	2014
Total	75,000	-	35,000	-	40,000		

	As at 1 January 2018	Granted	Exercised	Lapsed or forfeited	As at 31 December 2018	Date of grant	Date from which options can be exercised
Steve Brignall							
CSOP option price of 25p	35,000	-	35,000	-	-	Jan-09	2012
CSOP option price of 52p	20,000	-	-	-	20,000	Apr-10	2013
CSOP option price of 50.50p	20,000	-	-	-	20,000	Apr-11	2014
Unapproved option price of 51p*	20,000	-	-	-	20,000	Apr-12	2015
Unapproved option price 71p*	20,000	-	-	-	20,000	Apr-16	2019
Unapproved option price 101.50p*	20,000	-	-	-	20,000	Apr-17	2020
CSOP option price of 163p	-	460	-	-	460	Apr-18	2021
Unapproved Option Price of 163p	-	19,540	-	-	19,540	Apr-18	2021
Total	135,000	20,000	35,000	-	120,000		

	As at 1 January 2018	Granted	Exercised	Lapsed or forfeited	As at 31 December 2018	Date of grant	Date from which options can be exercised
Chris Cheetham							
CSOP option price of 25p	35,000	-	35,000	-	-	Jan-09	2012
CSOP option price of 52p	20,000	-	20,000	-	-	Apr-10	2013
CSOP option price of 50.50p	20,000	-	20,000	-	-	Apr-11	2014
Unapproved option price of 51p*	20,000	-	-	-	20,000	Apr-12	2015
Unapproved option price 71p*	20,000	-	-	-	20,000	Apr-16	2019
Unapproved option price 101.50p*	20,000	-	-	-	20,000	Apr-17	2020
CSOP option price 163p	-	18,404	-	-	18,404	May-18	2021
Unapproved option price 163p	-	1,596	-	-	1,596	May-18	2021
Total	135,000	20,000	75,000	-	80,000		

	As at 1 January 2018	Granted	Exercised	Lapsed or forfeited	As at 31 December 2018	Date of grant	Date from which options can be exercised
David Jones							
CSOP option price of 25p	35,000	-	35,000	-	-	Jan-09	2012
CSOP option price of 52p	20,000	-	20,000	-	-	Apr-10	2013
CSOP option price of 50.50p	20,000	-	20,000	-	-	Apr-11	2014
Unapproved option price of 51p*	50,000	-	-	-	50,000	Apr-12	2015
Total	125,000	-	75,000	-	50,000		

	As at 1 January 2018	Granted	Exercised	Lapsed or forfeited	As at 31 December 2018	Date of grant	Date from which options can be exercised
Klaus Heidrich							
Unapproved option price of 52p	8,000	-	-	-	8,000	Apr-10	2013
Unapproved option price of 50.50p	8,000	-	-	-	8,000	Apr-11	2014
Unapproved option price of 51p	30,000	-	-	-	30,000	Apr-12	2015
Unapproved option price of 71p	30,000	-	-	-	30,000	Apr-16	2019
Unapproved option price of 101.50p	30,000	-	-	-	30,000	Apr-17	2020
Unapproved option price of 163p	-	30,000	-	-	30,000	May-18	2021
Total	106,000	30,000	-	-	136,000		

* Previously incorrectly reported as CSOP awards, but which took effect as non-tax advantaged Unapproved Options.

David Coghlan holds 106,276 ordinary shares in SCISYS Group PLC but does not hold any options over SCISYS Group PLC shares. Klaus Meng does not hold any options over SCISYS Group PLC shares.

The Register of Directors' interests is available for inspection during business hours at the Group's head office at Methuen Park, Chippenham, and also at the 2019 Annual General Meeting.

COMPANY SECRETARY INTEREST IN SHARES

Please refer to the table at page 56, as Natasha Laird is also the Company Secretary.

SHARE SCHEMES

Share Incentive Plan

The Group operates an all-staff HMRC-approved Share Incentive Plan ("SIP") which was set up in 2001. The UK Directors may participate in this scheme. During the year, eligible staff were able to invest up to £1,800 per annum out of pre-tax pay in purchasing Partnership Shares. At certain times the Company may award free shares to eligible employees under the SIP.

As at 31 December 2018 the trust set up to administer the Free and Partnership shares held: 760,412 ordinary shares (2017: 843,652) in SCISYS Group PLC.

Share Option Schemes

The Company continues to operate share plans for senior executives and managers as a combined reward and incentive for those who have made a major contribution to the business and will continue to play a key role in helping the Group achieve its strategic objectives. Additionally, awards are made to key staff with high potential or in recognition of significant achievements.

Company Share Option Plan (CSOP)

SCISYS adopted a CSOP approved by HMRC in January 2009. Options may be exercised between 3- and 10-years following grant, provided that the performance conditions have been met. ▶

SHARE SCHEMES (CONTINUED)

During 2018 SCISYS awarded 191,994 options under the CSOP granted to Directors, senior managers and staff at an issue price of 163 pence per share. The total number of CSOP options that remain capable of being exercised at the year-end was 540,994. The number of CSOP options granted to Directors is reported on pages 56 to 57. No further awards can be made under this 2009 CSOP scheme.

A Performance Share Plan (PSP) will be put in place in 2019 and will offer shares to senior managers at a nominal price of 25p, with performance metrics measuring earnings per share growth and average adjusted pre-tax earnings growth. The Remuneration Committee will determine the levels of awards, which will be comparable with the value of current share option awards, but with restrictions on the ability to exercise options if the share price has fallen below any corresponding decrease in the AIM All Share Index, and an annual cap on the number of options that can be granted to any individual.

Unapproved Share Option Scheme

The CSOP scheme provides tax benefits for recipients providing they are resident in the UK. For our senior managers in Germany this would be inappropriate so since January 2008 we have awarded options to them under an unapproved scheme but in accordance with similar rules to the CSOP.

During 2018 SCISYS awarded 164,006 options under the unapproved scheme granted to Directors and senior managers at an issue price of 163 pence per share. The total number of these options that remain capable of being exercised at the year-end was 975,506. (270,000 options previously reported as CSOP exceeded the CSOP tax thresholds and took effect as unapproved options and are included in the sum of 975,506.) Options may be exercised between 3- and 10-years following grant, provided that the performance conditions have been met. The number of unapproved options granted to Directors is reported on pages 56 to 57.

Share Option Performance Conditions

The Remuneration Committee sets performance conditions each time an award of options is made under the CSOP and Unapproved schemes. The EPS growth and average adjusted pre-tax earnings are the two key performance measures currently applied. Both EPS growth and average adjusted pre-tax earnings remain substantially within the control of Directors and management and therefore the Remuneration Committee considered them to be appropriate measures of the underlying financial performance of the Group.

Options exercised during the year

Directors exercised a total of 220,000 share options during 2018. The total number of options held by Directors is reported on pages 56 to 57.

Dilution

Awards granted under the CSOP and Unapproved schemes are satisfied either with treasury shares or with a new issue of shares which is subject to an informal 10% dilution limit in any 10-year period. The current potential dilution is below this level. The total of share options awarded and remaining exercisable at year end was 1,516,500. The Company's current commitment as at 31 December 2018 in respect of its option grants (assuming all performance conditions are met, and all option and award holders remain in employment to the final date of exercise under the scheme rules) could be satisfied by issuing this number of new shares.

Share Price

The closing mid-market price of the Company's shares on 31 December 2018 (the last business day in 2017) was 147.5 pence per share. The high and low share mid-market prices during 2018 were 194 pence and 123 pence, respectively.

The report of the Remuneration Committee has been approved by the Board of Directors for submission to shareholders for their approval at the Annual General Meeting. ●