

# Board report on directors' remuneration

**Remuneration strategy** The Group aims to remunerate employees at levels which are competitive, and are designed to attract, retain and motivate people of high quality and experience. The board considers itself to be responsible for the Group's remuneration policy, however it has charged the remuneration committee with determining and maintaining a remuneration package for the Company's executive directors and the Group's senior executives that balances short and long-term goals with immediate, medium and long-term rewards within a structure that is performance-related and fits the culture and values of the Group.

**Remuneration committee** The remuneration committee was chaired throughout the year by P A M Curry and the other members are Sir Alan Cockshaw, J L Hewitt, R C H Jeens and W H Whiteley. All of the committee members are non-executive directors of the Company.

In determining the remuneration packages, the remuneration committee draws on advice from independent consultants to maximise comparability within the marketplace, with particular emphasis on the remuneration levels of closest competitors.

**Remuneration policy** The remuneration package for the executive directors and senior executives consists of an annual salary, short and long-term incentive schemes, pension arrangements, car and health care benefits.

The incentive schemes available for the remuneration committee's use consist of annual bonuses, executive share option schemes, employee sharesave schemes and an employee share ownership plan.

**Basic salary and benefits** The basic salary is reviewed annually, and is determined by reference to the individual's experience, responsibilities, performance, and market conditions. Benefits principally comprise a car and private healthcare.

**Performance related bonuses** The bonus for executive directors and certain senior executives is calculated on formulae which are determined in advance of each year by the remuneration committee. For the executive directors and certain senior executives, the formula measures the Group's performance against specified targets relating to the operational performance of the Group or its subsidiaries. For the subsidiary senior executives, the targets are a combination of measures relating to that subsidiary's operational performance.

The maximum bonuses payable under the above schemes are limited to 50% of annual salary.

**No. 1, No. 2 and No. 3 executive share option schemes** The No. 1, No. 2 and No. 3 executive share option schemes are available for certain executives in the Group's businesses. The option price is based on the mid market price of the Company's shares on the last dealing date preceding the granting of the options and can be exercised between the third and tenth anniversary of the grant date. Share options were granted under the No. 3 executive share option scheme during the year and are exercisable at a price of 194p per share between September 2004 and September 2011. The exercise of options under the No. 3 executive share option scheme, is dependent on certain performance criteria being achieved, namely that compound EPS growth over a three year period should exceed the movement in the retail price index by at least 3% for each year.

**Employee sharesave and stock option schemes** In the UK, grants were made under a sharesave scheme in January 1998. The option price is based on a discount of 20% from the mid market price of the ordinary shares five days before the application date. The savings term was for three or five years. The options are exercisable at a price of 150p per share. During the current year, the three year sharesave scheme matured and options were exercised by employees over 163,493 shares.

**Employee share ownership plan (restricted share scheme)** This scheme is administered by an independent trust and awards can be recommended by the remuneration committee for senior executives in the Group's businesses. The shares are awarded at Nil cost to the recipient. No award was made under this scheme during the year.

**Directors' remuneration and pension entitlements** The remuneration, excluding pensions, of the directors is set out below:

	Basic salary	Bonuses	Other benefits*	Taxable benefits	Fees	Share options exercised	Total 2001	Total 2000
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Sir Alan Cockshaw	-	-	-	-	50	-	50	50
H L Tee	235	-	-	20	-	-	255	338
A J Vaisey	210	-	46	17	-	29	302	343
P A M Curry	-	-	-	-	20	-	20	19
J L Hewitt	-	-	-	-	6	-	6	-
R C H Jeens	-	-	-	-	13	-	13	-
W H Whiteley	-	-	-	-	6	-	6	-
L C N Bury	-	-	-	-	7	-	7	19
R Koch	-	-	-	-	15	-	15	19
	445	-	46	37	117	29	674	788

\*The Company is committed to providing additional pension benefits for A J Vaisey through a funded unapproved pension scheme in order to bring his pension benefits up to the level which would have been provided under the approved scheme if the restrictions imposed by the Finance Act 1989 had not applied. The amounts charged in these accounts amounted to £69,000 (2000: £52,000). A J Vaisey has an entitlement to additional payments, amounting to £46,000, classified as other benefits, to compensate for the expected tax liability which arises in respect of the Company's contribution to this unapproved pension scheme.

The non-executive directors receive a set fee for their services, which can be enhanced for taking on or providing additional responsibilities or services. No additional payments were made during the year.

The pension entitlements of the directors from a defined benefits scheme are as follows:

	Increase, excluding inflation, in accrued pension during the year £'000	Transfer value of increase £'000	Accumulated total accrued pension at 31 December 2001 £'000	Accumulated total accrued pension at 31 December 2000 £'000
H L Tee	7	75	112	104
A J Vaisey	3	37	17	14

As part of the pension arrangements, the directors are entitled to life assurance cover equal to four times basic salary.

**Directors' beneficial interests** Directors' beneficial interests in the ordinary shares of 1p each in the Company are set out below:

	At 31 December 2001 Shares	At 31 December 2000 (or, if later, date of appointment) Shares
Sir Alan Cockshaw	30,000	30,000
H L Tee	2,579,422	2,554,422
A J Vaisey	82,600	58,022
P A M Curry	60,000	60,000
J L Hewitt	8,000	–
R C H Jeens	10,000	–
W H Whiteley	–	–

On 11 September 2001, R C H Jeens acquired 10,000 ordinary shares of 1p each. On 15 October 2001, J L Hewitt acquired 8,000 ordinary shares of 1p each. On 22 November 2001, H Tee acquired 25,000 ordinary shares of 1p each. The increase in the shares held by A J Vaisey follows the exercise of 24,578 options during the year. There has been no change in directors' holdings since the year end date.

None of the directors had or has an interest in any material contract relating to the business of the Company or any of its subsidiary undertakings.

**Directors' share options** Share options granted to directors are as follows:

**No. 1 executive share option scheme** Mr A J Vaisey exercised options over 21,978 shares during the year. The exercise price was 136.5p and the Company's share price at the date of exercise was 257p.

	Date granted	Options granted	Exercise price per share
<b>No. 3 executive share option scheme</b> H L Tee	21 September 1999	80,000	246.5p
	14 March 2000	84,970	250.5p
	14 September 2001	125,000	194.0p
A J Vaisey	21 September 1999	60,000	246.5p
	14 March 2000	71,202	250.5p
	14 September 2001	100,000	194.0p

The options are exercisable after the third anniversary and before the tenth anniversary of the year of the grant.

	Date granted	Options granted	Exercise price per share	Savings period years
<b>Employee sharesave scheme</b> H L Tee	21 January 1998	11,500	150p	5

A J Vaisey exercised options over 2,600 shares during the year. The exercise price of the options was 150p and the Company's share price on the date of exercise was 257p.

The directors were eligible to participate in the Company's Inland Revenue approved savings related share option scheme, on equal terms with all other employees.

**Service contracts** The service contract of H L Tee includes an ongoing notice period for termination of 24 months to be given by both the Company and H L Tee. This notice period was fixed in 1990 at the time of the formation of the Company and the committee are in agreement for it to continue. A J Vaisey's service contract includes an ongoing terminable period of 12 months if given by the Company and six months if given by A J Vaisey.

It is the remuneration committee's intention that future appointments will have notice periods of not more than 12 months. However, the committee accepts that it may have to offer a longer initial contract term for certain incoming directors.

**Remuneration policy for non-executive directors** Fees for the non-executive directors are determined by the board as a whole. The non-executive directors do not take part in these discussions. The non-executive directors do not participate in the Company's bonus schemes or share schemes and they are not eligible for pension scheme membership.

The agreement with non-executive directors is that they have an initial term of three years. This may be extended by a further three year period by mutual consent of the director and the board. All agreements with the non-executive directors include notice periods of three months.

**Share price** The share price range during 2001 was between a lowest market mid point price of 186p per share and a highest market mid point price of 341p per share. The market mid point price at 31 December 2001 was 219p per share.

**P A M Curry** Chairman of the remuneration committee  
18 March 2002