

# Report by the Board on Directors' Remuneration

**The Remuneration Committee** The Remuneration Committee is chaired by Mr Merrifield and acknowledges the principles and provisions relating to Directors' remuneration contained in the Code. He and the other members, Sir Harry Djanogly, Lord Owen and Sir Victor Blank are all independent Non Executive Directors. The Committee maintains overall responsibility for the development and effective implementation of senior management remuneration policies as well as approving the individual salaries and packages of the Board and other senior executives. The Committee has access to professional advice from within and outside the Group as well as to detailed information about the remuneration practices of companies of similar size and international spread and of industry competitors. No Director plays a part in any discussion about his or her own remuneration.

The Group has sought to build a performance led culture and, accordingly, its remuneration and benefits policies are constructed to support the principle of rewards related to achievement. The Group's success is dependent on senior management motivated by the opportunity both to pursue a varied and challenging career and to benefit from a fairly based and competitive remuneration package.

**Remuneration package** The Group's Executive Directors received a basic salary and are eligible to receive an annual bonus pursuant to the Senior Management Performance Plan and to participate in the Long Term Incentive Plan approved by shareholders in 1995. The level of basic salary is determined by the Remuneration Committee prior to April each year or when an individual changes position or responsibility.

Bonuses possible under the Senior Management Performance Plan consider factors including return on sales revenue, return on capital employed, improvements in productivity and working capital turnover. Details of bonuses paid to Directors for 1999 are disclosed on page 15.

The Long Term Incentive Plan introduced in 1995 for senior managers did not result in the allocation of any shares as performance targets were not achieved. During the year no shares for use under the Long Term Incentive Plan were

purchased by the employee benefits trust which administers the funds allocated to the Group's subsidiaries. The Trust held 1,012,907 ordinary shares as at 31 December 1999 and the market value of these shares was £420,356 (1998 – £273,485). The Trust has waived the right to receive dividends on these shares.

Under the terms of the 1994 Executive Share Option Scheme, the Remuneration Committee may grant options to Directors and senior management at the market price prevailing at the time of grant. Options are exercisable between three and ten years after the grant. The exercise of options granted under this Scheme is dependent upon growth in the Group's earnings per share exceeding by 2% the increase in the retail price index during the three year period following grant. During the year options were granted to Directors under the Scheme as set out on page 16. It is the Group's policy ordinarily to grant options under the Scheme on a staged basis.

Both the Executive Share Option Scheme and the Long Term Incentive Plan were designed to emphasise the correlation of the interest of shareholders, Directors and senior management.

**Executive Directors' pension arrangements** All Executive Directors are members of the Group pension plan which is contributory and is approved by the Inland Revenue. Their dependants are eligible for dependants' pensions and the payment of a lump sum in the event of death in service. The Group's pension plan has been established for many years and normally provides for a pension on retirement at the age of sixty of up to two-thirds of final basic salary. This may be increased within Inland Revenue limits where qualifying pensionable service exceeds thirty years in which case remuneration in addition to basic salary may be taken into account.

Where a Director's benefits from the Group plan are restricted by revenue limits, as is the case in respect of Ms Kantor, the Group increases pension and death benefits to the level that would otherwise have applied through the mechanism of an unfunded unapproved retirement benefit scheme. The pension costs of unfunded unapproved

## Report by the Board on Directors' Remuneration (continued)

arrangements are charged over their estimated service lives based upon actuarial advice.

There have been no changes in the terms of Directors' pension entitlements during the year.

**Other benefits** Directors other than Sir Victor Blank, Lord Owen and Mr Merrifield receive benefits including medical insurance and company car benefits in line with competitive practice. The value of such benefits are set out on page 15.

**Executive Directors' contracts** Executive Directors currently have contracts expiring on twelve months' notice. The Group may be obliged to pay the unexpired portion of a Director's contract, if it is terminated early. The Group's personnel policies relating to its UK-based senior management include guidelines on redundancy payments, which reflect the length of service of the redundant employee. These guidelines would also apply to any Director made redundant. Mr Flower has 32 years' service with the Group and the maximum benefit payable to him under the guidelines, inclusive of any entitlement under his service contract, would not exceed two years' basic salary. No other payments are made as compensation for loss of office. Executive Directors' contracts of service will be available for inspection at the Annual General Meeting.

**External appointments** Subject to Board approval and the reasonableness of demands on their time, Executive Directors may assume membership of two other boards on the basis that the Director concerned may retain any fees earned by him/her.

**Non Executive Directors** The remuneration of the Non Executive Directors is determined by the Board and is based upon independent surveys of fees paid to Non Executive directors of similar companies. The Non Executive Directors do not have contracts of service with the Group and are not members of the Group pension plan. Sir Harry Djanogly is entitled to other benefits including medical insurance and company car benefits. Details of Non Executive Directors' remuneration are disclosed in the table of Directors' remuneration set out on page 15.

The Remuneration Committee has determined that there are no special circumstances giving rise to a need to invite shareholders to vote on any resolution concerning remuneration at this year's Annual General Meeting.

For and on behalf of the Remuneration Committee  
K J Merrifield

### Directors' salaries for year ended 31 December 1999

	Salaries/fees		Taxable benefits		Performance related bonuses		Compensation for the loss of office		Total	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
	1999	1998	1999	1998	1999	1998	1999	1998	1999	1998
Sir Harry Djanogly	99	76	24	26	-	-	-	-	123	102
K T Kantor	240	45	15	-	56	-	-	-	311	45
M C Flower	250	246	12	11	71	-	-	-	333	257
M G Hartley	225	75	11	4	9	8	-	-	245	87
Sir Victor Blank	20	20	-	-	-	-	-	-	20	20
Lord Owen	20	20	-	-	-	-	-	-	20	20
K Merrifield	20	20	-	-	-	-	-	-	20	20
Sir David Alliance	69	145	19	31	-	-	-	-	88	176
M S Ost	94	372	6	14	-	-	-	-	100	386
D L Speirs	54	183	2	7	157	15	-	-	213	205
Former Directors	-	266	11	17	-	-	-	53	11	336
<b>Total</b>	<b>1,091</b>	<b>1,468</b>	<b>100</b>	<b>110</b>	<b>293</b>	<b>23</b>	<b>-</b>	<b>53</b>	<b>1,484</b>	<b>1,654</b>

#### Notes

- The figures set out above related only to the period of each Director's membership of the Board.
- Emoluments are paid in the same financial year with the exception of bonuses, which are paid in the year following that in which they are earned.
- (i) M S Ost ceased to be a director of the Group on 14 April 1999. He continues to receive a salary from the Group until 31 March 2000 and his salary for the remainder of 1999 was £282,000. In addition he received a bonus payment of £125,000 following the sale of the Precision Engineering Division.  
(ii) D L Speirs resigned as a director of the Group on 7 May 1999.  
(iii) Sir David Alliance resigned as a director of the Group on 21 July 1999.

Directors' pension entitlements	Increase in accrued pension entitlement during 1999 (Note 2)	Total accrued pension entitlement at 31 Dec 1999	Transfer value of increase in accrued pension entitlements during 1999 (Note 3)
	£'000 pa	£'000 pa	£'000
K T Kantor	11,200	13,190	195,820
M C Flower	3,410	142,680	60,440
M G Hartley	9,980	81,674	171,300
M S Ost	34,810	79,240	693,350
D L Speirs	2,090	54,127	39,940

#### Notes to pension benefits

- The pension entitlement shown is that which would be paid annually on retirement based on service at the end of the year.
- The increase in accrued pension during the year excludes any increase for inflation.
- The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Notes GN11 less Directors' contributions and includes the cost of death in service cover and salary continuance protection.
- Members of the Plan have the option to pay Additional Voluntary Contributions. The figures in the table above do not include allowance for benefits produced by AVCs, nor has the transfer value been adjusted in respect of AVCs.

## Report by the Board on Directors' Remuneration (continued)

Directors' interests	Ordinary Shares	
	31 December 1999	31 December 1998
Sir Harry Djanogly	1,292,207	1,292,207
K T Kantor	–	–
M C Flower	34,502	34,502
M G Hartley	57,039	50,000
Sir Victor Blank	124,094	124,094
K J Merrifield	30,000	30,000
Lord Owen	1,417	1,417

### Details of Directors' executive share options are as follows:

Director	Number of Options			Weighted average exercise price	Range of dates from which exercisable	Range of expiry dates
	At 1 Jan 1999 or appointment	Granted in year	At 31 Dec 1999			
<b>K T Kantor</b>						
Options granted since 01/01/98	1,185,185	572,000	1,757,185	36.44p	21/10/01-29/03/02	21/10/08-29/03/09
	1,185,185	572,000	1,757,185			
<b>M C Flower</b>						
Options granted since 01/01/98	–	720,800	720,800	42.00p	29/03/02	29/03/09
Options granted prior to 01/01/98	376,050	–	376,050	185.41p	15/10/94-17/03/00	15/10/01-17/03/07
SAYE	11,660	–	11,660			
	387,710	720,800	1,108,510			
<b>M G Hartley</b>						
Options granted since 01/01/98	666,666	110,000	776,666	34.92p	21/10/01-29/03/02	21/10/08-29/03/09
Options granted prior to 01/01/98	151,543	–	151,543	185.97p	15/10/94-17/03/00	15/10/01-17/03/07
SAYE	8,863	–	8,863			
	827,072	110,000	937,072			
Totals	2,399,967	1,402,800	3,802,767			

During the year Sir David Alliance, Mr M S Ost and Dr D L Spiers resigned as Directors of the Group.

No options were granted in the period up to resignation and no options were exercised.

The market price of the Group's shares at 31 December 1999 was 41.5p (1998 – 27p) and the range during the year was 27p to 59.5p.