

## The Remuneration Committee

The Remuneration Committee is chaired by Mr Merrifield and acknowledges the principles and provisions relating to Directors' remuneration contained in the Combined Code. During 2001, he and Sir Harry Djanogly and Sir Victor Blank together with Lord Owen and Noel Goutard up to the date of their retirements were members of the Remuneration Committee and are 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 inside 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 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 were eligible to receive an annual bonus pursuant to the Senior Management Performance Plan. 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 achieving budget for operating profit and return on capital employed. In addition, the Remuneration Committee is empowered to award additional bonuses at its discretion. Details of bonuses paid to Directors for 2001 are disclosed on page 27.

A 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 552,569 Ordinary shares as at 31 December 2001 (2000 – 1,012,907) and the market value of these shares was £261,089 (2000 – £389,969). During the year the Trust distributed a total of 460,338 Ordinary shares to selected senior managers under a loyalty bonus scheme. No Directors of the Company were participants in the loyalty bonus scheme.

Under the terms of the 1994 Executive Share Option Scheme, the Remuneration Committee may grant options to Directors and a wide group of senior management at the market price prevailing at the time of grant. Options are exercisable not less than three and not more than 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 any three year period following grant. It has been the Group's policy ordinarily to grant options under the Scheme on a staged basis. Options in respect of 7,550,000 Ordinary shares were granted on 17 September 2001 to certain senior executives including the Executive Directors at an option price of 51.25 pence per share.

## New share plans

The Remuneration Committee has undertaken a review of the current executive incentive plans and has concluded that it would be appropriate to introduce new plans which are consistent with current best practice and which support the strategic goals of the Group.

It is proposed that the 1994 Executive Share Option Scheme be replaced by new approved and unapproved option plans which have been designed in accordance with the principles set out in UK corporate governance guidelines. The plans incorporate a number of new features compared with the 1994 Scheme including an annual grant size maximum, a fixed performance measurement period and a three-year EPS performance measure that is more demanding for larger option grants.

The Remuneration Committee also recommends that the current Long Term Incentive Plan, introduced in 1995 be replaced with a new performance share plan. This has been designed to reward the delivery of exceptional shareholder value and focuses on those individuals who have overall responsibility for strategic direction, driving overall business performance and leading transformational change. As such it is intended that participation will initially be limited on a discretionary basis to key selected senior executives, although it may be appropriate to extend this in the future. Awards under the plan may be in the form of either shares or nil-priced options, or an equivalent cash amount.

Performance will be measured on the basis of three year growth in Earnings Per Share and awards will vest (i.e. be earned and paid) on a sliding scale of challenging targets. For the first awards, nothing will vest if three-year EPS growth is less than RPI + 30%. A maximum of 150% of an award will vest for three-year EPS growth of RPI + 105%.

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### 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 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.

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

### Other benefits

Executive Directors receive benefits including medical insurance and company car benefits in line with competitive practice. The value of such benefits is set out on page 27.

### Executive Directors' contracts

Executive Directors currently have contracts expiring on twelve months' notice. On appointment from outside the Group, however, a new Director may be entitled to a contract with an initial notice period of twenty-four months reducing to twelve months at the end of the first year of service. 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 34 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. 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 up to two other boards on the basis that the Director concerned may retain any fees earned by him.

### 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 Company and are not members of the Pension Plan. Sir Harry Djanogly is entitled

to 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 27.

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. The Chairman of the Committee will, however, be available to answer questions on any aspect of the remuneration policy at the Annual General Meeting.

For and on behalf of the Remuneration Committee

**K J Merrifield**

**Directors' remuneration for year ended 31 December 2001**

	Salaries/fees		Taxable benefits		Performance related bonuses		Compensation for the loss of office		Total	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
Sir Harry Djanogly	<b>125</b>	125	<b>18</b>	20	–	–	–	–	<b>143</b>	145
M C Flower	<b>332</b>	300	<b>15</b>	16	–	174	–	–	<b>347</b>	490
J D Lea	<b>139</b>	–	<b>10</b>	–	–	–	–	–	<b>149</b>	–
Sir Victor Blank	<b>28</b>	20	–	–	–	–	–	–	<b>28</b>	20
E A Malone	<b>24</b>	–	–	–	–	–	–	–	<b>24</b>	–
K J Merrifield	<b>48</b>	20	–	–	–	–	–	–	<b>48</b>	20
B A Nixon	<b>24</b>	–	–	–	–	–	–	–	<b>24</b>	–
N Goutard	<b>24</b>	–	–	–	–	–	–	–	<b>24</b>	–
M G Hartley	<b>81</b>	250	<b>16</b>	16	–	167	<b>260</b>	–	<b>357</b>	433
K T Kantor	<b>97</b>	250	<b>6</b>	25	<b>45</b>	250	<b>753</b>	–	<b>901</b>	525
Lord Owen	<b>8</b>	20	–	–	–	–	–	–	<b>8</b>	20
<b>Total</b>	<b>930</b>	985	<b>65</b>	77	<b>45</b>	591	<b>1,013</b>	–	<b>2,053</b>	1,653

**Notes**

- 1 The figures set out above relate only to the period of each Director's membership of the Board.
- 2 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.
- 3 Ms Kantor's compensation payment includes one year's salary in accordance with her contract of employment, a payment of £472,800 in lieu of her entitlement under her unfunded unapproved pension arrangements and a payment for outplacement services.
- 4 Mr Hartley's compensation payment includes one year's salary in accordance with his contract of employment and a payment for outplacement services.

<b>Directors' pension entitlements</b>	Increase in accrued pension entitlement during 2001 (Note 2)	Total accrued pension entitlement at 31 Dec 2001	Transfer value of increase in accrued pension entitlements during 2001 (Note 3)
	£ pa	£ pa	£
M C Flower	55,130	235,420	1,008,520
J D Lea	9,833	53,025	114,840

**Notes to pension benefits**

- 1 The pension entitlement shown is that which would be paid annually on retirement based on service at the end of the year.
- 2 The increase in accrued pension during the year excludes any increase for inflation.
- 3 The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Notes GN11 less Director's contributions and includes the cost of death in service cover and salary continuance protection.
- 4 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.
- 5 The figures set out above for Mr Lea apply only to the period of his appointment as a Director from 2 April 2001.

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Directors' interests	Ordinary shares	
	31 December 2001	31 December 2000 or date of appointment if later
Sir Harry Djanogly	1,292,207	1,292,207
M C Flower	84,502	84,502
J D Lea	23,079	23,079
Sir Victor Blank	124,094	124,094
N Goutard	–	–
E A Malone	–	–
B A Nixon	–	–
K J Merrifield	30,000	30,000

Mr Goutard resigned as a Director of the Company on 31 December 2001. Mr Hartley and Ms Kantor, who both retired from the Board on 2 April 2001, had interests in 64,780 and nil issued Ordinary shares respectively during the period of their appointments. Mr Anderson, who was appointed as a Director on 1 January 2002, is interested in 9,000 Ordinary shares.

Messrs Flower, Lea and Anderson are also deemed to be interested in the 552,569 Ordinary shares held by the Trustee of the Employee Share Option plan, solely by virtue of the fact that they are potential beneficiaries.

In 1992, the Company, through a subsidiary, acquired a joint interest in a property with Mr Flower on his taking permanent residence in England. The subsidiary's investment was £180,000. Under the Agreement Mr Flower has the option to purchase the Group's interest at market value. The Group's investment was reduced to £75,000 in January 1994 following partial exercise of Mr Flower's option. In 1999, the Company, through a subsidiary, acquired a joint interest in properties with Mr Lea and Mr Anderson, respectively. The subsidiary's investment in both cases was £75,000 and Messrs Lea and Anderson have an option to purchase the Group's interest at market value.

None of the Directors has or had any interest in the preference share capital of the Company or of the shares of any of its subsidiaries.

Director	At 1 Jan 2001 or date of appointment if later	Granted in year	Exercised	Lapsed	As at 31 Dec 2001	Weighted average exercise price	Range of dates from which exercisable	Range of expiry dates
<b>M C Flower</b>								
Options granted since 01/01/1998	720,800	600,000	–	–	1,320,800	46.20p	29.03.02 to 17.09.04	29.03.09 to 17.09.11
Options granted prior to 01/01/1998	376,050	–	–	40,551	335,499	187.26p	21.10.95 to 17.03.00	21.10.02 to 17.03.07
SAYE	7,237	–	–	–	7,237	143.00p	01.09.01	01.03.02
	1,104,087	600,000	–	40,551	1,663,536			
<b>J D Lea</b>								
Options granted since 01/01/1998	170,000	500,000	–	–	670,000	48.90p	29.03.02 to 17.09.04	29.03.09 to 17.09.11
Options granted prior to 01/01/1998	65,275	–	–	–	65,275	156.22p	21.10.95 to 17.09.00	21.10.02 to 17.09.07
SAYE	–	–	–	–	–	–	–	–
	235,275	500,000	–	–	735,275			
Totals	1,339,362	1,100,000	–	40,551	2,398,811			

Mr Flower's SAYE option over 7,237 Ordinary shares lapsed on 1 March 2002.

On 1 January 2001 Mr Hartley and Ms Kantor had options over 928,209 and 1,757,185 Ordinary shares respectively which were outstanding or exercisable on their retirement.

On the date of his appointment, 1 January 2002, Mr Anderson had the following options over Ordinary shares.

		Weighted average exercise price	Range of dates from which exercisable	Range of expiry dates
<b>B G F Anderson</b>				
Options granted since 01/01/1998	670,000	48.90p	29.03.02 to 17.09.04	29.03.09 to 17.09.11
Options granted prior to 01/01/1998	50,275	179.11p	21.10.95 to 17.09.00	21.10.02 to 17.09.07
SAYE	15,681	110.00p	01.07.02	01.01.03
Total	735,956			

The closing middle market share price at 31 December 2001 was 47.25p (2000 – 38.50p) and the range during the year was 38.50p to 58.50p.