

#### The Remuneration Committee

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. The remuneration policy is to provide market competitive rewards for delivering target performance with the opportunity to earn additional rewards for exceptional performance against short and medium term objectives through annual bonus and share incentives.

The Remuneration Committee is chaired by Keith Merrifield and acknowledges the principles and provisions relating to Directors' remuneration contained in the Combined Code. During 2002, he, Sir Harry Djanogly and Sir Victor Blank were members of the Remuneration Committee. All the members of the Committee are independent. In the opinion of the Board this includes Sir Harry Djanogly and Sir Victor Blank, notwithstanding that they are in their eighteenth and fourteenth years of service respectively. 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. No Director plays a part in any discussion about his own remuneration. 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. The Committee is assisted by the Group HR department in determining the appropriate structure and quantum of Directors' reward packages and takes advice from Mrs Carol Arrowsmith formerly of Andersen who subsequently joined Deloitte & Touche.

#### Remuneration package

During the year 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 role or responsibility.

Bonuses payable under the Senior Management Performance Plan reflect factors including achieving targets for operating profit, sales and net working capital. In addition, the Remuneration Committee retains the flexibility to award additional bonuses based on their evaluation of performance and the prevailing circumstances. The maximum bonus that can be awarded is 100% of salary. Details of bonuses paid to Directors for 2002 are disclosed on page 15. In determining the balance between those elements of the package which are, and those which are not, subject to performance, the Remuneration Committee takes into consideration both the remuneration policy of the Company and market practice.

During 2002 the Remuneration Committee concluded its review of the Group's executive incentive plans and resolved that it would be appropriate to introduce new plans which were consistent with current best practice and which support the strategic goals of the Group. At the Annual General Meeting in 2002 the shareholders approved the Performance Share Plan and the 2002 Approved and Unapproved Share Option Plans, which replaced the 1995 Long Term Incentive Plan and the 1994 Executive Share Option Scheme respectively.

#### Performance Share Plan

The Performance Share Plan is 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. Awards under the plan may be in the form of either shares or nil-priced options, or an equivalent cash amount. During the year, awards were made to a number of senior executives including the Executive Directors.

All Awards made in 2002 are subject to demanding performance conditions which require the Company's EPS over the three year period to grow by a minimum of RPI + 10%. In selecting stretching EPS growth as the performance measure for these awards the Committee gave consideration to the priorities it sees for achieving increased shareholder value in the period ahead. The amount that vests for growth of RPI + 10% per annum over the performance period will be 20% of the Award and increases on a sliding scale depending on EPS growth. For exceptional earnings growth, where the Company's EPS has grown by RPI + 35% per annum over the performance period, the maximum of 150% of the Award will vest.

## 14 Report on Directors' remuneration (continued)

The following table sets out the vesting schedule on a simplified annual basis for the Awards made in 2002.

EPS growth per annum	Percentage of Award that vests
Less than RPI + 10%	0%
RPI + 10%	20%
RPI + 10-15%	20-30% (additional 2% vests for each 1% increase in average annual real EPS growth)
RPI + 15-20%	30-40% (additional 2% vests for each 1% increase in average annual real EPS growth)
RPI + 20-25%	40-60% (additional 4% vests for each 1% increase in average annual real EPS growth)
RPI + 25-30%	60-100% (additional 8% vests for each 1% increase in average annual real EPS growth)
RPI + 30-35%	100-150% (additional 10% vests for each 1% increase in average annual real EPS growth)
Above RPI + 35%	150%

No Awards made have exceeded 100% of a participant's salary.

On a change of control the conditional awards vest subject to the performance criteria.

The existing Employee Benefits Trust (the "Trust") will be used to purchase shares awarded under the Performance Share Plan. The Trust held 552,569 ordinary shares as at 31 December 2002 (2001 – 552,569) and the market value of these shares was £270,759 (2001 – £261,089).

### 2002 Approved and Unapproved Share Option Plans

The new option plans were 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 a maximum annual grant value, a fixed performance measurement period and a three-year EPS performance measure that is more demanding for larger option grants. No Executive Director has been granted options under these Plans.

### 1994 Executive Share Option Scheme

The final grant of options, which included all the current Executive Directors, under the terms of the 1994 Executive Share Option Scheme was made in 2001. 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.

### Executive Directors' pension arrangements

All Executive Directors are members of the Coats Pension Plan on a contributory basis. Their dependants are eligible for dependants' pensions and the payment of a lump sum in the event of death in service. The Coats Pension Plan provides a pension on a defined benefit basis. Final pensionable earnings, excluding bonuses, are used to determine the Director's pension entitlement and life assurance cover is provided at four times gross earnings, again excluding bonuses. The pension entitlements earned by the Directors during the year calculated in accordance with the requirements of the UK Listing Authority listing rules and the Companies Act 1985 are set out in the table on page 16.

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. Jonathan Lea and Bryan Anderson also receive a mortgage benefit payment. The value of such benefits is set out on page 15.

### Executive Directors' contracts

In normal circumstances it is the policy of the Group for Executive Directors contracts to expire on no more than twelve months' notice although a longer initial period may be agreed if recruiting an Executive Director from outside the Group. All the current Executive Directors have service contracts expiring on 12 months' notice. The effective date of Martin Flower's, Jonathan Lea's and Bryan Anderson's service contracts as Directors are 23 March 1990, 2 April 2001 and 1 January 2002 respectively. 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. Martin Flower has 35 years' service with the Group, his initial employee service contract commencing on 7 October 1968, 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. Jonathan Lea has 23 years service with the Group, his initial employee service contract commencing on 17 September 1979, 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. Bryan Anderson has 20 years' service with the Group, his initial employee service contract commencing on 20 September 1982 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 one other board, 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 service contracts 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 below.

An advisory resolution for the approval of this report on Directors' Remuneration will be put to the vote at this year's Annual General Meeting. The Chairman of the Committee will be available to answer questions on any aspect of the remuneration policy at the Annual General Meeting.

For and on behalf of the Board

**K J Merrifield**

The information below and continuing to page 17, which forms part of the Report on Directors' Remuneration, is audited by Deloitte & Touche.

### Directors' remuneration for year ended 31 December 2002

	Salaries/fees		Taxable benefits		Performance related bonuses		Compensation for the loss of office		Total	
	£'000 2002	£'000 2001	£'000 2002	£'000 2001	£'000 2002	£'000 2001	£'000 2002	£'000 2001	£'000 2002	
Sir Harry Djanogly	125	125	23	18	–	–	–	–	148	143
M C Flower	356	332	18	15	197	–	–	–	571	347
J D Lea	201	139	21	10	113	–	–	–	335	149
B G F Anderson	219	–	19	–	121	–	–	–	359	–
Sir Victor Blank	30	28	–	–	–	–	–	–	30	28
K J Merrifield	30	48	–	–	–	–	–	–	30	48
B A Nixon	25	24	–	–	–	–	–	–	25	24
N Goutard	–	24	–	–	–	–	–	–	–	24
M G Hartley	–	81	–	16	–	–	–	260	–	357
K T Kantor	–	97	–	6	–	45	–	753	–	901
E A Malone	17	24	–	–	–	–	–	–	17	24
Lord Owen	–	8	–	–	–	–	–	–	–	8
<b>Total</b>	<b>1,003</b>	<b>930</b>	<b>81</b>	<b>65</b>	<b>431</b>	<b>45</b>	<b>–</b>	<b>1,013</b>	<b>1,515</b>	<b>2,053</b>

### Notes

- The figures set out above relate 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.
- Ms Kantor's compensation payment made in 2001 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.
- Mr Hartley's compensation payment made in 2001 includes one year's salary in accordance with his contract of employment and a payment for outplacement services.

## 16 Report on Directors' remuneration (continued)

### Directors' pension entitlement

	Increase in accrued pension during year net of inflation £p.a.	Total accrued pension entitlement at 31 Dec 2002 £p.a.	Transfer value of net increase over period (net of member contributions) £	Value of accrued pension at 31 Dec 2001 £	Value of accrued pension at 31 Dec 2002 £	Total change in value during period (net of member contributions) £
M C Flower	23,540	262,960	453,180	4,652,070	5,259,060	589,380
J D Lea	13,300	85,200	167,860	822,480	1,133,460	301,900
B G F Anderson	19,030	82,610	232,550	686,530	1,053,370	365,740

#### Notes

- 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 Note GN11. The figures showing the Transfer Value of Net Increase over the Period include an allowance for the costs of providing death in service benefits.
- The change in the amount of the transfer value over the year is made up of the following elements –
  - transfer value of the increase in accrued pension;
  - increase in the transfer value of accrued pension at the start of the year due to ageing; and
  - the impact of any change in the economic or mortality assumptions underlying the transfer value basis.
- Directors pay contributions as required by the Coats Pension Plan and these amounts are offset in calculating the values shown in the columns headed Transfer Value of Net Increase over Period and Total Change in Value.
- The Transfer values disclosed above do not represent a sum paid or payable to the individual Director. Instead they represent a potential liability of the Pension scheme.

### Directors' interests

	Ordinary Shares	
	31 December 2002	31 December 2001 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
B G F Anderson*	9,000	9,000
Sir Victor Blank	124,094	124,094
B A Nixon	–	–
K J Merrifield	30,000	30,000

\*Appointed as a Director on 1 January 2002.

Martin Flower, Jonathan Lea and Bryan 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 Martin Flower on his taking permanent residence in England. The subsidiary's investment was £180,000. Under the Agreement Martin 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 Martin Flower's option. In 1999, the Company, through a subsidiary, acquired a joint interest in properties with Jonathan Lea and Bryan Anderson, respectively. The subsidiary's investment in both cases was £75,000 and Jonathan Lea and Bryan 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.

**Number of options**

<b>Director</b>	At 1 January 2002	Granted in year	Exercised	Lapsed	At 31 December 2002	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	1,320,800	–	–	–	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	335,499	–	–	73,499	262,000	184.86p	13.09.97 to 17.03.00	13.09.04 to 17.03.07
SAYE	7,237	–	–	7,237	–	–	–	–
	1,663,536	–	–	80,736	1,582,800			
<b>J D Lea</b>								
Options granted since 01/01/1998	670,000	–	–	–	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	–	–	20,275	45,000	138.38p	13.09.97 to 17.09.00	13.09.04 to 17.09.07
SAYE	–	–	–	–	–	–	–	–
	735,275	–	–	20,275	715,000			
<b>B G F Anderson</b>								
Options granted since 01/01/1998	670,000	–	–	–	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	50,275	–	–	20,275	30,000	167.83p	13.09.97 to 17.09.00	13.09.04 to 17.09.07
SAYE	15,681	–	–	–	15,681	110.00p	01.07.02	01.01.03
	735,956	–	–	20,275	715,681			
<b>Totals</b>	<b>3,134,767</b>	<b>–</b>	<b>–</b>	<b>121,286</b>	<b>3,013,481</b>			

Bryan Anderson's SAYE option over 15,681 ordinary shares lapsed on 1 January 2003.

**Conditional awards under the Performance Share Plan**

<b>Director</b>	At 1 January 2002	Awarded	At 31 December 2002	Maximum possible vesting
M C Flower	–	681,904	681,904	1,022,856
J D Lea	–	390,476	390,476	585,714
B G F Anderson	–	419,047	419,047	628,570

Details of the conditions attaching to the share options and Performance Share Plan are shown on pages 13 and 14.

The closing middle market share price at 31 December 2002 was 49.0p (2001 – 47.25p) and the range during the year was 40.5p to 58.25p.

## 18 Report on Directors' remuneration (continued)

As required by the Directors Remuneration Report Regulations, set out below is a graph comparing the Total Shareholder Return ("TSR") of a holder of Ordinary shares in the share capital of Coats plc with a hypothetical holding of all the shares in the FTSE Mid 250 index (of which Coats plc is a member) of equal value on the day of purchase. Total Shareholder Return is calculated by reference to the increase (or decrease) in share price from the start of the five year period together with dividends on the basis that they are assumed to be reinvested throughout the period. The graph shows cumulative TSR performances over the five year period to this report's year end, 31 December 2002.

As described on pages 13 and 14, none of the Group's share option plans or performance share plans have performance criteria which are linked to TSR or to the particular five year period in question and accordingly the graph is not an indication of the achievement of those plans' performance criteria.

### Historical TSR performance

#### Growth in the value of a hypothetical £100 holding over five years

#### FTSE Mid 250 comparison

