

## Remuneration report

The remuneration philosophy endorsed by the remuneration committee and the Board is to set basic salary and benefits in line with market norms whilst rewarding excellent performance through generous short- and longer-term incentives. For all employees and executives, basic salary is managed in relation to market median, having regard to individual performance against defined objectives. Benefits such as travel allowances and contributions to retirement and medical funds are maintained at market-competitive levels.

### Executive directors and senior managers

For executives and senior management, an annual incentive bonus is provided with awards dependent partly on strategic delivery and partly on the achievement of defined financial targets over a three-year period. These targets incorporate a required rate of real growth in either or both operating profit after tax and headline earnings per share. The proportion of basic salary which may be earned as an annual bonus varies according to the position of each individual. In terms of current guidelines, full attainment of financial targets and strategic objectives gives rise to a bonus of 50 per cent for the chief executive and between 40 and 50 per cent for executive directors and the leaders of operating businesses. Outperformance of financial targets yields a higher percentage bonus. The remuneration committee approves bonuses before payment.

Executives and senior management also participate either in a share option scheme, as approved by shareholders in 2001, or in a benefit unit scheme which emulates the performance of share options. These schemes are intended to align the longer-term interests of executives with those of shareholders. In 2003, the remuneration committee approved an earnings-per-share-based scheme that supplements the existing option scheme and links long-term executive wealth accumulation more directly to the actual financial performance of the Company.

Details of the remuneration earned and share options held by executive directors are disclosed in notes 29 and 30 to the financial statements.

### Non-executive directors

The Board applies principles of good corporate governance relating to directors' remuneration and also keeps abreast of changing trends. Governance of directors' remuneration is undertaken by the remuneration committee.

The remuneration of non-executive directors is determined by the Company's shareholders in general meeting, acting pursuant to a recommendation of the Board acting, in turn, pursuant to a recommendation of the executive committee.

The remuneration committee takes cognizance of market norms and practices, as well as the additional responsibilities placed on Board members by new legislation and corporate governance principles.

Independent non-executive directors do not have service contracts and are not members of the Group's pension schemes. The Company does not grant options or shares to non-executive directors. Non-executive directors receive an annual fee for their contribution. The annual fee comprises a base retainer fee and, where applicable, a committee membership fee. Fees are not dependant on individual attendance at meetings. Full details of directors' remuneration are set out on pages 149 to 156.

The Group pays for all travel and accommodation expenses incurred by directors to attend Board meetings and visits to Company businesses. Details of the emoluments paid to non-executive directors are given in note 29 to the financial statements.

No non-executive director has an employment contract with the Company.