Directors' remuneration report

The Group is required by the Companies Act 1985 to prepare a Directors' remuneration report for the 52 weeks ended 1 February 2009 and put that report to a shareholder vote. A resolution to approve this report will be proposed at the Annual General Meeting of the Company to be held on 4 June 2009.

The auditor is required to report on part of the Directors' remuneration report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 1985. The report has therefore been divided into separate sections for unaudited and audited information.

Unaudited information

The members of, and advisors to the Remuneration Committee are laid out in the Corporate governance report on page 31, in the section titled Remuneration Committee.

Remuneration policy

The Remuneration Committee considers that the Company's remuneration policies should encourage a strong performance culture and emphasise long-term shareholder value creation, with clear links between executive performance goals and business strategy. The Committee also believes that there should be a clear reward structure to enable the Company to attract, retain and motivate the best talent who have been and will continue to be key to the Company's recent success and future performance by:

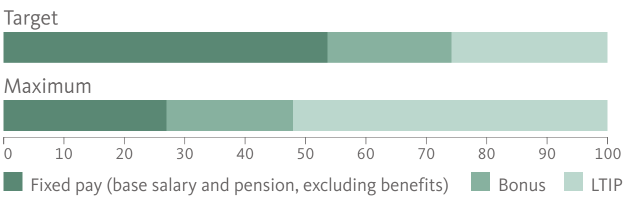
- positioning base salaries around the mid-market; and
- operating annual and long-term incentives, so that a substantial proportion of total remuneration is subject to performance and so that executives are aligned with shareholders through share ownership.

Fixed versus variable remuneration

A substantial proportion of the Executive Directors' pay is performance-related. The chart below demonstrates the balance between fixed and performance-related pay for the Chief Executive at target and maximum performance levels. Maximum performance assumes the achievement of maximum bonus and full vesting of shares under the LTIP.

Performance-related versus fixed remuneration

%



Base salary and benefits

Base salary is a fixed cash sum payable monthly in arrears. In order to set the right balance in Executive Directors' packages, the policy is generally to set salaries around mid-market levels with a substantial proportion being subject to the performance of the business and individuals. The Remuneration Committee has regard to the following when reviewing salary levels:

- the rates for similar roles in comparator companies, both in FTSE100 retailers, including the Company's major competitors, and more generally in UK-based companies of a similar size and complexity (specifically FTSE companies ranked 20 to 60 by market capitalisation excluding those with significant overseas turnover/operations);
- the performance of the individual concerned, together with any change in responsibilities that may have occurred;
- avoiding the automatic ratcheting effects of following 'median' or 'upper quartile' levels of salary derived from comparator company analyses; and
- pay quantum and structure throughout the Company.

During the year, base salaries were reviewed in the light of benchmark data, internal relativities and personal performance. As a result, increases were approved for certain Directors.

Current base salaries for the financial year, together with the previous year's salaries, are set out below:

	2009/10	2008/09
Marc Bolland	£850,000	£757,050
Mark Gunter	£540,750	£540,750
Richard Pennycook	£540,750	£519,120
Martyn Jones	£450,000	£425,000

The increase to Marc Bolland's base salary, which became effective from 1 August 2008, followed a review carried out by the Remuneration Committee around the time of the second anniversary of his appointment. The review included a comprehensive benchmarking exercise which identified that base salary was significantly below mid-market. Given the base salary positioning, and following consideration of Marc Bolland's performance during his first two years in role, a mid-year review was deemed appropriate in these exceptional circumstances. Marc Bolland did not receive any further increase in February 2009. Richard Pennycook's base salary was increased from £519,120 to £540,750 effective from the normal review date of 1 February 2009. Martyn Jones' base salary was increased with effect from 1 February 2009 from £425,000 to £450,000 reflecting his greater experience since promotion to the Board. Mark Gunter's base salary, as a result of already being positioned at the mid-market level, was left unchanged. The Remuneration Committee is satisfied that these increases were necessary to enable the Company to pay competitive base salaries and are reasonable in the context of the Directors' total remuneration packages.

Benefits include health insurance, transport costs and telephone expenses.

Annual bonus

The Remuneration Committee operated an annual bonus plan for Executive Directors and other senior managers during 2008/09.

For 2008/09 the maximum bonus was 100% of base salary, with measurement based upon profit before taxation (excluding exceptionals) and personal objectives, as set out below:

Measures	% of bonus potential
Profit before tax, excluding exceptionals	80%
Personal objectives	20%

No bonus was payable for the achievement of personal objectives unless the minimum profit targets had been achieved.

Details of the actual amounts paid for 2008/09 are set out in the Directors' emoluments table on page 37.

For the 2009/10 annual bonus plan, maximum bonus potential will remain at 100% of base salary.

In addition to profit before tax (excluding exceptionals) and personal objectives, strategic corporate scorecard measures structured around financial objectives, operational excellence, customers and employees have been introduced, as set out below:

Measures	% of bonus potential
Profit before tax, excluding exceptionals	65%
Strategic corporate scorecard measures	20%
Personal objectives	15%

No bonus will be payable for the achievement of strategic corporate scorecard measures or personal objectives unless the minimum profit target has been achieved.

Specific performance targets have not been disclosed as they are considered to be commercially confidential but they will be demanding and require performance significantly better than plan for full payout.

The arrangements will be operated for other senior managers on similar terms to the above but at reduced levels.

All Employee Sharesave Scheme

The Group operates a Sharesave Scheme which is approved by HM Revenue & Customs. All eligible employees, including Executive Directors, may be invited to participate on similar terms to save up to a maximum of £250 each month for a fixed period of three years. At the end of the savings period, individuals may use their savings plus a tax-free bonus to buy ordinary shares in the Group at a discount capped at up to 20% of the market price, set at the launch of each Scheme.

Long Term Incentive Plan

The Long Term Incentive Plan (LTIP), approved by shareholders in 2007, is designed to reward management for achieving the Group's strategic objectives and to provide an appropriate level of long-term performance pay.

Each year, participants receive conditional awards of shares in the Group which will normally vest three years after they are awarded, subject to the satisfaction of performance conditions measured over a three-year period and continued service. The plan's individual annual limit is 300% of salary (face value of shares).

In 2008, awards were made to 740 participants, including Executive Directors, their direct reports and management tiers below (including supermarket store managers). An award of shares worth 250% of salary was made to the Chief Executive, with 200% of salary for the other Executive Directors in April 2008. A further award of shares worth an additional 50% of salary was made to the Chief Executive in October 2008 to reflect his personal contribution since appointment and act as a further incentivisation and retention mechanism over and above his existing awards. This award was made within the individual limit of 300% of salary contained in the LTIP rules. The current intention is that for the Chief Executive, future award levels from April 2009 will revert back to 250% of salary per annum. Other Executive Directors currently receive a 200% of salary award level. For tiers below Executive Director, awards were made in April 2008 at the 100% or lower levels, dependent upon seniority. It is intended that the next awards will be granted in April 2009 shortly after the 2008/09 Preliminary announcement.

Performance under the plan is measured over three years. Performance measures are 75% based on earnings per share and 25% based on like-for-like non-fuel sales growth. These performance metrics were selected for the following reasons:

- they are directly linked to the objectives set out in the Group's strategy – improving EPS and sales performance reflects the need for basic profit growth and should flow through to increased shareholder value;
- there is a clear line of sight between performance and reward; and
- they are relatively easy to understand and communicate.

To guard against the possibility of individuals receiving value from the LTIP as a result of sales targets being hit but EPS targets being missed, no awards can vest under the sales targets unless threshold EPS targets have been met.

For the awards intended to be granted in April 2009, details of the three year EPS and sales targets are set out below.

25% of the EPS-related component of the award will vest if the Group's Underlying EPS grows in line with the growth in the Retail Prices Index plus an average of 4% per annum, rising on a pro rata basis until 100% vests for outperforming the Index by at least 10% per annum. Underlying EPS will be as defined in note 7 to the financial statements. The Group will report EPS in this way in its Annual report.

In light of food price unpredictability, the Remuneration Committee reviewed the best way of measuring sales growth and has made a revision to ensure that performance continues to be measured in a robust way. Instead of setting absolute like-for-like sales growth targets, the Remuneration Committee considers that it is preferable to measure the Group's like-for-like grocery sales growth against the IGD (Institute of Grocery Distribution) Index, which measures market growth in like-for-like sales (excluding fuel). This independently audited index, which includes all of the Company's major competitors, is considered to be the most reliable method of measuring market growth. 25% of the sales growth-related component of the award will vest if the Group's like-for-like sales match the IGD Index, rising on a pro rata basis until 100% vests for outperforming the Index by at least 2% over the three years ending with the 2011/12 financial year. Like-for-like sales is defined as the reported sales from existing space (excluding VAT), less total fuel sales. As has been the previous practice, no part of the award relating to sales growth can vest unless the minimum EPS target is achieved.

Directors' remuneration report continued

The Remuneration Committee considers that the targets set out above are demanding in the context of the Group's circumstances and take into account the prospects for growth. The targets are considered to be at least as challenging in the circumstances as the targets set for awards made in prior years.

Share ownership guidelines

The Group operates share ownership guidelines for Executive Directors. Under the guidelines, Directors are expected to retain 50% of vested LTIP awards (net of tax) until such time as they own shares worth 100% of their salary after which point they will be expected to retain, as a minimum, this level of holding.

Pension arrangements

The Executive Directors, with the exception of Marc Bolland, participate in the Group's Defined Benefit Pension Scheme. Pension entitlements accrue at the rate of 1/30th for each year, with a maximum pension of 2/3 pensionable salary at age 62. Pensionable pay for the Executive Directors is annual salary as at 6 April each year.

In the case of members joining the pension scheme prior to 1 June 1989, the pension payable is currently based on final pensionable pay calculated as the average of the highest three years pensionable pay in the Director's last 10 years of employment. For members joining the scheme after 31 May 1989, final pensionable pay is currently the lower of the average of the highest three years pensionable pay in the Director's last 10 years of employment and the maximum earnings limit which in 2008/09 is £117,600.

Mark Gunter, Richard Pennycook and Martyn Jones became members of the pension scheme subsequent to 1 June 1989. Sir Kenneth Morrison is in receipt of a pension from the scheme, in addition to his emoluments up to retirement shown on page 37. His pension amounted to £33,997 in the period up until cessation of employment.

The expected cost of providing retirement benefits to the Directors is assessed in accordance with the advice of independent qualified actuaries. The pension arrangements include life assurance cover whilst in employment, an entitlement to a pension in the event of ill health or disability and a pension for the spouse and any dependant children on death.

No contributions were paid or are payable by any Directors under the terms of the scheme. There are no enhanced early retirement rights. Post-retirement pensions increase in line with the annual increase in the retail price index or by 5% per annum compound, whichever is the lower.

Richard Pennycook, Mark Gunter and Martyn Jones, who were all subject to the earnings cap in place before April 2006 which has been retained for benefits accruing thereafter, received a cash supplement of 10% of salary in excess of the cap in 2008/09. Following a review of this pension provision against the market, it was determined that the salary supplement should be increased from 10% to 15% for 2009/10 onwards. Marc Bolland is not in the pension scheme but instead receives a salary supplement of 30% of salary which will remain unchanged.

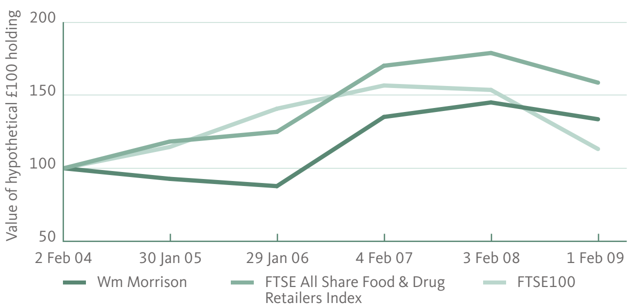
On 25 February 2009, the Group commenced consultation with active members of the Group's two defined benefit pension schemes and, where appropriate, their trade union representative bodies. As part of the agreement in principle with the Trustee of each scheme announced in last year's Annual report, the Group is proposing to change the basis of future pension accrual from final salary to one based on career average revalued earnings (CARE). Subject to the outcome of consultation, the change to CARE will be made in the third quarter of 2009. Under the proposals, benefits that have been earned under final salary arrangements will be preserved and increased in line with the Retail Price Index from date of conversion until retirement. The financial impact of this proposed change is described on page 13 of the Financial review.

Performance graph

The following graph shows the Company's total shareholder return (TSR) compared against the TSR of the FTSE100 and FTSE Food & Drug Retailers indices over the five year period to 1 February 2009. These indices have been selected as being appropriate in giving a broad equity view and the Company is a constituent of both indices.

Total shareholder return

Source: Thomson Financial



Directors' contracts

a) Executive Directors

All Executive Directors have a service agreement without expiry dates. These contracts can be terminated by either the Group or Director giving 12 months' notice.

The Remuneration Committee has in place a model contract which provides that any compensation provisions for termination without notice will only extend to 12 months' of salary, benefits and pension (which may be payable in instalments and subject to mitigation). Going forward, all new Director contracts will be on that basis. The model contract does not contain change of control provisions. This policy was applied to Marc Bolland at the time of his recruitment and to Mark Gunter and Martyn Jones from 2007. Richard Pennycook's contract provides that he has an obligation to mitigate his loss in the event of termination in breach of contract.

Name of Director	Date of contract	Notice period from Company (months)
M Bolland	7 Jun 2006	12
M Gunter	5 Apr 2007	12
M Jones	5 Apr 2007	12
R Pennycook	23 May 2006	12

Roger Owen tendered his resignation on 18 October 2007 and left the business on 1 February 2009. On the basis that full notice was served, there was no termination payment made in relation to his contract. Roger Owen participated in the Annual Bonus Plan for 2008/09 and received an award under the LTIP in April 2008. Consistent with best practice, the two sets of LTIP awards granted to Roger Owen will continue to vest three years from the relevant grant date, subject to the satisfaction of performance conditions, with amounts pro-rated to reflect the period of time between the grant date and the leaving date.

Subject to Board approval, Executive Directors are permitted to accept outside appointments on external boards or committees as long as these are not deemed to interfere with the business of the Company. Any fees received in respect of these appointments, which are disclosed under the Directors' emoluments table, are retained by the Executive Directors concerned.

b) Non-Executive Directors

Brian Flanagan, Paul Manduca, Susan Murray and Nigel Robertson were appointed for a three year period from their original dates of appointment in 2005. Following the expiry of this initial period, each has been re-appointed for a further three year term, unless otherwise terminated earlier by, and at the discretion of, either party upon one month's written notice.

Following the retirement of Sir Kenneth Morrison as Chairman on 13 March 2008, Sir Ian Gibson was appointed as Non-Executive Chairman. Sir Ian Gibson was appointed to the Board for a three year period from 1 September 2007 unless otherwise terminated earlier by, and at the discretion of, either party upon 12 months' written notice.

Name of Director	Date original term commenced	Date current term commenced	Expected date of expiry of current term
B Flanagan	1 Jul 2005	1 Jul 2008	1 Jul 2011
I Gibson	1 Sep 2007	1 Sep 2007	1 Sep 2010
P Manduca	6 Sep 2005	6 Sep 2008	6 Sep 2011
S Murray	1 Jul 2005	1 Jul 2008	1 Jul 2011
N Robertson	1 Jul 2005	1 Jul 2008	1 Jul 2011

The Board makes the initial appointment of Directors who are then subject to re-election by the shareholders at the first AGM following appointment and thereafter at least every three years.

The remuneration of the Non-Executive Directors is a matter for the Non-Executive Chairman and Executive members of the Board and is reviewed from time-to-time with regard to the time commitment required and the level of fees paid in comparable companies. The remuneration of the Non-Executive Chairman is a matter for the Remuneration Committee and the Board and is reviewed from time-to-time with regard to the time commitment required and the level of fees paid in comparable companies. All Non-Executive Directors receive no benefits from their office other than fees and staff discount entitlement, and are not eligible to participate in the Group's pension arrangements.

The current levels are as follows:

Name	Base £000	Committee Chairmanship £000	Senior Independent Director £000	Total £000
B Flanagan	60	–	–	60
I Gibson	300	–	–	300
P Manduca	60	10	20	90
S Murray	60	10	–	70
N Robertson	60	–	–	60
Total	540	20	20	580

Audited information

Directors' emoluments and pension entitlements

The emoluments of the Directors were as follows:

Name	Directors' salaries/fees £000	Benefits in kind £000	Pension supplement £000	Annual bonus £000	Total year to 1 Feb 2009 £000	Total year to 3 Feb 2008 £000
Non-Executive Chairman						
I Gibson	279	–	–	–	279	52
Chairman						
K Morrison[1]	78	6	–	–	84	736
Executive Directors						
M Bolland	804	47	241	608	1,700	1,689
M Gunter	541	37	42	434	1,054	1,093
M Jones	425	31	31	332	819	980
R Owen	525	35	–	389	949	1,009
R Pennycook	519	35	40	417	1,011	1,145
Non-Executive Directors						
B Flanagan	56	–	–	–	56	45
P Manduca	84	–	–	–	84	65
S Murray	66	–	–	–	66	55
N Robertson	56	–	–	–	56	45
Former Directors						
D Hutchinson[2]	–	–	–	–	–	268
Total	3,433	191	354	2,180	6,158	7,182

Resigned from the Board with effect from:
1 13 March 2008.
2 30 June 2007.

Directors' remuneration report continued

In addition to the emoluments detailed above, a charge of £3.9m has been made to the income statement in respect of Directors' share-based payments.

Benefits in kind comprise transport costs, health insurance, telephone expenses and the use of a Company leased apartment for Marc Bolland. The Directors also receive a staff discount entitlement which is not taxable.

None of the Directors has a material interest in any contract significant to the Group's business.

The Executive Directors each received 77% of the potential annual bonus payable in respect of profit before tax (excluding exceptionals). The range of percentages of potential bonus payable in respect of personal objectives was between 82% and 93%.

For the period 2008/09 Marc Bolland received cash fees from Manpower Inc. to a Sterling equivalent of £13,607, and deferred and restricted stock worth a Sterling equivalent of £85,447 for his role as Non-Executive Director at Manpower Inc.

For the period 2008/09 Richard Pennycook received cash fees from Persimmon Plc of £42,215.

Following cessation of employment on 29 September 2006, Robert Stott agreed to work on a consultancy basis for the Group from 1 November 2006 for a minimum of 156 days over the following 12 month period. During that period, he was responsible for co-ordinating the Group's response to the Competition Commission enquiry into the Grocery sector. Following completion of the initial consultancy period, Robert Stott's engagement was extended, for 10 days per month, until the Competition Commission's final report was issued. Robert Stott's engagement ended on 14 May 2008. Consultancy fees paid to Robert Stott amounted to £137,568 (including VAT) for the period from 3 February 2008 to 14 May 2008.

The following Directors had accrued entitlements under defined benefit schemes as follows:

Name	Accrued pension at 3 Feb 2008 £000	Increase in accrued pension (excluding inflation) for year ended 1 Feb 2009 £000	Transfer value of the increase in accrued pension during the year £000	Accrued pension at 1 Feb 2009 £000	Transfer value of accrued pension at 3 Feb 2008 £000	Transfer value of accrued pension at 1 Feb 2009 £000	Movement in transfer value during the year £000
Executive Directors							
M Gunter	47	3	31	52	491	514	23
M Jones	30	3	34	35	319	339	20
R Owen[1]	321	N/A	N/A	295	5,278	5,257	N/A
R Pennycook	8	3	24	12	70	84	14
Total	406	9	89	394	6,158	6,194	57

1 Roger Owen retired on 1 February 2009 and the pension shown is the early retirement pension. It is not therefore directly comparable to the prior year figures.

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Share awards

As at 1 February 2009, Directors' interests under LTIPs and one-off deferred awards (Richard Pennycook) were as follows:

		Notes	Date of grant	Share price on grant	As at 3 Feb 2008	Shares granted	As at 1 Feb 2009	Vesting date
M Bolland	LTIP	1	24 May 2007	313.75p	294,256	–	294,256	1 Sep 2009
	LTIP	2	24 May 2007	313.75p	557,445	–	557,445	24 May 2010
	LTIP	3	14 Apr 2008	277.25p	–	682,518	682,518	14 Apr 2011
	LTIP	3, 4	14 Oct 2008	243.50p	–	175,547	175,547	14 Oct 2011
					851,701	858,065	1,709,766	
M Gunter	LTIP	2	24 May 2007	313.75p	318,540	–	318,540	24 May 2010
	LTIP	3	14 Apr 2008	277.25p	–	390,010	390,010	14 Apr 2011
					318,540	390,010	708,550	
M Jones	LTIP	2	24 May 2007	313.75p	168,857	–	168,857	24 May 2010
	LTIP	2, 5	24 Oct 2007	296.75p	78,553	–	78,553	24 Oct 2010
	LTIP	3	14 Apr 2008	277.25p	–	306,527	306,527	14 Apr 2011
					247,410	306,527	553,937	
R Owen	LTIP	2, 6	24 May 2007	313.75p	305,798	–	305,798	24 May 2010
	LTIP	3, 6	14 Apr 2008	277.25p	–	356,581	356,581	14 Apr 2011
					305,798	356,581	662,379	
R Pennycook	Deferred share award	7	1 Apr 2007 (notional grant date)	308.75p	309,073	–	309,073	1 Apr 2009
	LTIP	2	24 May 2007	313.75p	305,798	–	305,798	24 May 2010
	LTIP	3	14 Apr 2008	277.25p	–	374,410	374,410	14 Apr 2011
					614,871	374,410	989,281	

1 Following shareholder approval at the 2007 AGM, Marc Bolland received a one-off LTIP reflecting the five months worked from appointment in 2006/07, with the value of shares equal to 5/12ths of 250% of £700,000 (his salary on 1 September 2006) based on the average closing share prices on the day of the announcement of the interim results for 2006/07 (declared on 21 September 2006) and the following four business days (247.80p). This award was treated as having been made on 1 September 2006 (when Marc Bolland joined the Company) and it vests, subject to performance and continued employment, on 1 September 2009 (i.e. three years after it was deemed to have been awarded). This award is not pensionable.

Vesting of the award on 1 September 2009 will be based on performance over the period ending with 2008/09, to reflect the position which would have applied had he received an award during the 2006/07 financial year. Performance measures are 75% based on EPS and 25% based on like-for-like non-fuel sales growth. 25% of the EPS related part of the award will vest if the Group's EPS is 13.3p per share in 2008/09, rising on a pro rata basis until full vesting is achieved at 16p per share. 25% of the sales growth related part of the award will vest if the Group's like-for-like non-fuel sales grow at 3% per annum compound over 2007/08 and 2008/09, rising on a pro rata basis until full vesting is achieved for growth of 5% p.a. compound. No awards can vest under the sales targets unless threshold EPS targets have been met.

2 LTIP awards granted on 24 May 2007 and 24 October 2007 are subject to three year performance targets. Performance measures are 75% based on EPS and 25% based on like-for-like non-fuel sales growth. 25% of the EPS related component of the award will vest if the Group's EPS in 2009/10 is 15.8p per share rising on a pro rata basis until 100% vests for an EPS of 19p per share. 25% of the sales growth related component will vest if the Group's like-for-like non-fuel sales grow by 3% p.a. compound rising on a pro rata basis until there is 100% vesting for growth of 5% p.a. compound. No awards can vest under the sales targets unless threshold EPS targets have been met.

3 LTIP awards granted on 14 April 2008 and 14 October 2008 are subject to three year performance targets. Performance measures are 75% based on EPS and 25% based on like-for-like non-fuel sales growth. 25% of the EPS related component of the award will vest if the Group's EPS in 2010/11 is 19.6p per share rising on a pro rata basis until 100% vests for an EPS of 23.5p per share. 25% of the sales growth related component will vest if the Group's like-for-like non-fuel sales grow by 3% p.a. compound rising on a pro rata basis until there is 100% vesting for growth of 5% p.a. compound. No awards can vest under the sales targets unless threshold EPS targets have been met.

4 Marc Bolland received an additional LTIP award of 175,547 shares in October 2008 to reflect his personal contribution since appointment and act as a further incentivisation and retention mechanism over and above his existing awards. In the future, it is currently intended that the Chief Executive will normally receive a 250% of salary LTIP award per annum.

5 Martyn Jones received an additional LTIP award of 78,553 shares in October 2007 to reflect an increase in salary upon joining the Board.

6 Following Roger Owen's retirement on 1 February 2009, LTIP awards will vest three years from grant, subject to the satisfaction of performance conditions and time pro-rating to reflect the shorter period of time between grant date and leaving date.

7 To fulfil promises made to Richard Pennycook at the time of his recruitment, as reported in last year's Remuneration Report, the annual bonus award made to him for 2006/07 included, in addition to the cash element, a deferred share award as a result of no LTIP being adopted by shareholders in the 2006/07 financial year. That award was in shares of the Group with a value equal to £950,400 (two times the amount of the cash bonus earned for the 2006/07 financial year) with the number of shares calculated by reference to the average share price over the five dealing days prior to the deemed date of the award (1 April 2007) which was 307.5p. The deferred share award will vest on 1 April 2009, provided Richard Pennycook is still an employee of the Group at this time. Upon vesting, a payment will also be made in cash or shares, as determined by the Remuneration Committee, equivalent to the dividends which would have been payable on the shares over the two-year deferral period (or such shorter period if awards vest earlier). This award is not pensionable.

Directors' remuneration report continued

Share options

Options granted to Directors to acquire ordinary shares in the Group which are still outstanding on 1 February 2009 or on ceasing to be a Director are as follows:

Date of grant	At 3 Feb 2008	Number of options during the 52 weeks ended 1 Feb 2009			At 1 Feb 2009	Exercise price	Market price on day of exercise	Gain on exercise £000s	Exercisable	
		Granted	Exercised	Lapsed					From	To
M Gunter										
2 Apr 2003	260,000	–	–	–	260,000	175p		–	2 Apr 2006	2 Apr 2013
12 Nov 2004	220,000	–	–	–	220,000	222p		–	12 Nov 2007	12 Nov 2014
21 Apr 2006	5,917[1]	–	–	–	5,917	158p		–	1 Jul 2009	1 Jan 2010
	485,917	–	–	–	485,917			–		
M Jones										
5 Apr 2001	50,000	–	–	–	50,000	187p		–	5 Apr 2004	5 Apr 2011
2 Apr 2003	88,000	–	–	–	88,000	175p		–	2 Apr 2006	2 Apr 2013
21 Apr 2006	5,917[1]	–	–	–	5,917	158p		–	1 Jul 2009	1 Jan 2010
	143,917	–	–	–	143,917			–		
K Morrison										
5 Apr 2001	200,000	–	200,000	–	–	187p		204	5 Apr 2004	5 Apr 2011
5 Apr 2002	150,000	–	150,000	–	–	209p		120	5 Apr 2005	5 Apr 2012
2 Apr 2003	260,000	–	260,000	–	–	175p		296	2 Apr 2006	2 Apr 2013
12 Nov 2004	500,000	–	500,000	–	–	222p		335	12 Nov 2007	12 Nov 2014
	1,110,000	–	1,110,000	–	–			955		
R Pennycook										
18 May 2007	3,825[1]	–	–	–	3,825	247p		–	1 Jul 2010	1 Jan 2011
	3,825	–	–	–	3,825			–		

1 Options granted under the Sharesave scheme.

The 1995 Senior Executive Share Option Scheme terminated at the end of its 10-year life on 25 May 2005 and no grants have been made under it since November 2004.

The ordinary share mid-market price ranged from 220p to 306p and averaged 271.7p during the period. The price on 1 February 2009 was 270.75p compared to 299.0p on 3 February 2008.

The performance condition attached to options under the Executive Share Option Scheme (which has been satisfied) is as follows:

- The operating profit of the Group, as detailed in the audited report and financial statements, must increase by at least 20% between the base year and its third or succeeding anniversary. Once an option is exercisable it will remain so until it lapses (in accordance with the rules of the Scheme) even if on a future anniversary the operating profit does not exceed the base year by 20%.

Dilution and share usage

Awards under the Group's share option and SAYE schemes are satisfied by the issue of new shares within the limits agreed by shareholders when the plans were approved. These limits comply with the Association of British Insurers' guidelines restricting dilution from employee share plans. The overall limits under the guidelines are that no more than 10% of a Group's issued share capital may be used in any 10 year period. Up to 5% may be used for executive share plans. As at 1 February 2009, the Group's share usage against these limits was 3.11% and 0.72% respectively.

It is currently intended that LTIP awards be satisfied by market purchased shares which are held in an Employee Benefit Trust.

Directors' interests

The interests of the Directors and their families in the shares of the Company (including percentages where holdings are over 3%) were as follows:

	1 February 2009		3 February 2008	
Beneficial	Ordinary shares	Options to purchase ordinary shares	Ordinary shares	Options to purchase ordinary shares
M Bolland	–	–	–	–
M Gunter	38,492	485,917	38,492	485,917
M Jones	18,667	143,917	18,667	143,917
R Owen	482,178	–	482,178	–
R Pennycook	–	3,825	–	3,825
B Flanagan	–	–	–	–
I Gibson	108,055	–	108,055	–
S Murray	5,000	–	5,000	–
P Manduca	25,000	–	25,000	–
N Robertson	–	–	–	–

There were no changes in the above interests in the period from 1 February 2009 to 11 March 2009.

Approval

The audited section of this report was approved by the Board of Directors on 11 March 2009 and the unaudited section was approved on 19 March 2009 and signed on its behalf by

Susan Murray
Chair of the Remuneration Committee