

REMUNERATION REPORT

GENERAL POLICY

In determining the remuneration packages of the executive directors, the remuneration committee has regard to two fundamental principles:

- the importance of recruiting and retaining management of the highest calibre; and
- linking reward to the Company's performance.

The committee has applied these principles to develop remuneration packages which:

- provide a competitive base salary designed to attract and retain executive directors of the highest calibre and to reflect their role and experience;
- provide incentive arrangements which are subject to challenging performance targets, reflect the Company's objectives and recognise the importance of motivating management to focus on annual, as well as longer-term, performance; and
- directly align the interests of the executive directors with those of shareholders.

REMUNERATION PACKAGE

The four components of the remuneration package are base salary and benefits, annual cash bonus, long-term incentive arrangements and pension. The following sections provide an outline of current practice with regard to each component.

BASE SALARY AND BENEFITS

Base salary and benefits are determined on an annual basis by the committee after a review of the individual's performance and market trends. For guidance, the committee has regard to available research and published remuneration information on comparable companies. Salary policy within the rest of the Group is also taken into consideration. Benefits typically include a car and life, disability and health insurance. The value of benefits is not pensionable.

The executive directors waived any increase in base salary for the year under review. M P Green and G M Murphy have also waived any increase in base salary for the 2002/03 financial year.

ANNUAL CASH BONUS

The directors' annual performance-related cash bonus scheme provides executive directors with an incentive to achieve demanding short-term performance targets. The bonus earned, which is not pensionable, depends principally upon the Company's performance as measured against a specific target or targets set by the committee each year.

For the year under review, the scheme provided for a bonus of up to 100 per cent of salary, and the targets related to operating performance and individual objectives. M P Green, G M Murphy and P C Murray have waived any bonuses they earned under the scheme.

Table I – Directors’ emoluments

	Salary £000	Benefits £000	Annual bonus £000	Total 2002 £000	Total 2001 £000
Executive					
M P Green	670	37	–	707	713
G M Murphy ⁽¹⁾	500	98	–	598	849
P C Murray ⁽²⁾	206	12	–	218	–
Non-executive					
E M de Villiers	35	–	–	35	–
D B Green	35	–	–	35	35
L F Hill	35	–	–	35	35
Sir Sydney Lipworth	35	–	–	35	35
Sir Brian Pitman	35	–	–	35	35
Current directors total	1,551	147	–	1,698	1,702
Previous directors					
B A Cragg ⁽³⁾	84	11	–	95	384
N N Walmsley ⁽³⁾	78	5	–	83	329
A D A W Forbes ⁽⁴⁾	18	–	–	18	35
	1,731	163	–	1,894	2,450

Notes

(1) Included in G M Murphy’s benefits is a payment of £74,712 (2001: £75,566) connected with his pension arrangements.

(2) P C Murray was appointed to the Board on 1 January 2002.

(3) B A Cragg ceased to be a director of the Company on 31 December 2001. The figures set out in Table I comprise his salary and benefits until that date. Thereafter, in settlement of contractual rights under his service agreement, he received compensation totalling £295,000. Gains made on early vesting of long-term incentive arrangements are detailed in note 1 to Table 2 and details of the pension arrangements are disclosed in note 5 to Table 5. N N Walmsley ceased to be a director of the Company on 31 December 2001. The figures set out in Table I comprise his salary and benefits until that date. Thereafter, in settlement of contractual rights under his service agreement, he received compensation totalling £309,000 including the value of benefits. Gains made on early vesting of long-term incentive arrangements are detailed in note 1 to Table 2. On 14 January 2002 the Company entered into a consultancy agreement with N N Walmsley until 30 September 2003 for a total fee of £50,000.

(4) A D A W Forbes retired from the Board on 28 February 2002.

(5) For the purposes of Schedule 6 to the Companies Act 1985:

- the director with the highest total emoluments for 2002 was M P Green, and for 2001 was G M Murphy. The accumulated total accrued pension in 2002 for M P Green was £134,000 as set out in Table 5 below, and in 2001 for G M Murphy was £2,000;
- directors’ emoluments totalled £2,468,000 in 2001.

LONG-TERM INCENTIVE ARRANGEMENTS

Share options

Directors can participate in the Sharesave scheme and options granted to them under that scheme are included in Table 2. They can also be granted options under the Carlton Executive Share Option Scheme 1999. During the year under review directors were granted options under this scheme, details of which are included in Table 2. These options were granted as part of a phased grant. The exercise of executive share options is subject to satisfaction of performance conditions set by the committee.

Table 2 – Options

	Scheme	Options held on 1 October 2001	DABS/LTIS awards vested during the year	Options granted during the year	Options lapsed during the year	Options held on 30 September 2002	Option Price	Exercise Period
M P Green	EXEC	28,712	–	–	–	28,712	282p	1996-2003
	EXEC	40,000	–	–	–	40,000	358.4p	1998-2005
	EXEC	230,188	–	–	–	230,188	530p	2001-2008
	EXEC	202,657	–	–	–	202,657	602p	2003-2010
	EXEC	158,031	–	–	–	158,031	772p	2003-2010
	EXEC	238,859	–	–	–	238,859	561P	2004-2011
	EXEC	315,047	–	–	–	315,047	319P	2004-2011
	Sharesave	5,164	–	–	–	5,164	334p	2003-2004
	DABS	23,718	–	–	–	23,718	Nominal	1999-2003
	DABS	20,331	–	–	–	20,331	Nominal	2001-2007
	DABS	–	1,953	–	–	1,953	Nominal	2002-2007
	LTIS	38,675	–	–	–	38,675	Nominal	2000-2003
	LTIS	28,590	–	–	–	28,590	Nominal	2001-2007
LTIS	–	79,075	–	–	79,075	Nominal	2002-2007	
G M Murphy	EXEC	250,000	–	–	–	250,000	800p	2003-2010
	EXEC	178,253	–	–	–	178,253	561p	2004-2011
	EXEC	235,109	–	–	–	235,109	319p	2004-2011
	Sharesave	3,552	–	–	3,552	–	475p	2006
	Sharesave	–	–	4,545	–	4,545	209p	2005
P C Murray	EXEC	–	–	488,888	–	488,888	225p	2004-2011
	Sharesave	–	–	4,545	–	4,545	209p	2005

Notes

- (1) For the year under review, the aggregate gains for all directors' options exercised during the year were £392,184 (2001: £69,000). This figure represents the difference between the market price of option shares at the exercise date and their exercise price. It does not represent the net proceeds received as no account has been taken of option shares which have been retained, the tax liability or, where option shares have been sold, the sale commissions and expenses. It includes gains on exercise by the following individuals who ceased to be directors during the year (i) B A Cragg: gains of £82,192 on the exercise of his vested DABS and LTIS awards and £86,780 on the exercise of DABS and LTIS awards that were permitted to vest early and were exercised during the year; and (ii) N N Walmsley: gains of £103,959 on the exercise of his vested DABS and LTIS awards and £119,251 on the exercise of DABS and LTIS awards that were permitted to vest early and were exercised during the year.
- (2) The market price of an Ordinary share on 30 September 2002 was 109p and the range of prices during the year to 30 September 2002 was between 106p and 286p.
- (3) There have been no changes in these interests between the year end and the date of this document.

Deferred Annual Bonus Share plan (DABS)

The plan, which operates on an annual basis, provides that a participant may choose to invest up to 50 per cent of his net (i.e. after tax) annual cash bonus to purchase Carlton Ordinary shares (bonus shares). The investing participant is then conditionally awarded a number of Carlton Ordinary shares (restricted shares) with a value that is the gross (i.e. pre-tax) equivalent of the annual cash bonus so invested. Provided the bonus shares are retained for three years and the participant remains employed by the Group for four years, the restricted shares will vest and thereafter become available to the participant.

The directors' interests in non-vested restricted shares conditionally awarded under this plan are shown in Table 3.

Long-Term Incentive Share plan (LTIS)

During the period, no awards were made under the LTIS plan. It is intended that no further awards will be made in future under this plan.

The LTIS plan provided for a participant to be conditionally awarded a number of Carlton Ordinary shares with a value equating to a percentage of his/her base salary. The percentage was determined by the committee. Provided the participant remained employed by the Group for four years, the Company's performance, measured on the basis of total shareholder return (TSR) (i.e. share price movement and dividends paid) against the FTSE-100 companies over a three year performance period, determined what proportion (if any) of the award would vest at the end of four years. The proportion and targets were determined by the committee.

The directors' interests in non-vested shares conditionally awarded under this plan are shown in Table 3.

Table 3 – DABS and LTIS awards

	Notes	Held on 1 October 2001	Awarded during the year	Vested during the year ⁽³⁾	Held on 30 September 2002	Exercise period
M P Green	DABS ⁽¹⁾	1,953	–	1,953	–	2002-2007
	DABS ⁽¹⁾	5,411	–	–	5,411	2003-2008
	DABS ⁽²⁾	6,258	–	–	6,258	2004-2010
	DABS ⁽²⁾	19,910	–	–	19,910	2005-2010
	LTIS ⁽¹⁾	79,075	–	79,075	–	2002-2007
G M Murphy	DABS ⁽²⁾	3,138	–	–	3,138	2005-2010

Notes

- (1) These conditional awards originally took the form of allocations of Ordinary shares. These have since been converted into options over Ordinary shares. The options are exercisable at a nominal price and subject to certain conditions being satisfied (as summarised above).
- (2) These conditional awards take the form of options granted over Ordinary shares. The options are exercisable at a nominal price and subject to certain conditions being satisfied (as summarised above).
- (3) During the year, the last conditions relating to these options were satisfied, they vested and accordingly they are now disclosed in the "Options" Table 2. The aggregate value of options which vested during the year was £161,822 (2001: £522,000). They all related to M P Green (2001: £269,000). These value figures are based on the market price of an Ordinary share on the relevant vesting date. They are notional figures as value is not realised until the option is exercised. Upon exercise, the value is disclosed in the "Options" Table 2, and may differ from such notional value, depending on the share price movement in the intervening period.
- (3) There have been no changes in these interests between the year end and the date of this document.

The Carlton Equity Participation Plan (EPP)

The EPP received shareholder approval at the AGM on 1 March 2001. A summary of the main features of the plan is set out below.

Participation in the EPP applies to executive directors and selected senior executives. Participants invited to take part in the EPP are required to commit Carlton shares (EPP shares) by a specified date to qualify for a matching award. Normally a participant is entitled to commit EPP shares to a value of up to 100 per cent of basic salary (save for the first award where the maximum EPP share commitment was to a value of up to 200 per cent of basic salary). A matching award comprises both an award of free shares (in the form of a nil-price option) and an option grant over shares at market value. The extent to which a matching award will vest depends on the participant retaining his/her EPP shares and the performance conditions relating to the matching award being satisfied. The maximum matching award will be free shares equal in number to three times the EPP shares and options (at market value) over an equal number of shares. The principal performance conditions applicable to the first awards will be measured on the basis of the Company's TSR performance against that of other major UK media companies and the FTSE-100 companies. None of the matching award will vest if the Company's TSR is below median for the media comparator group.

On 5 December 2001 the first awards were made under the terms of the EPP, including to the directors as shown in Table 4.

Table 4 – EPP awards

	Option (nil price)	Option (market value)	Held on 30 September 2002	Option price	Vesting date
M P Green	1,786,665		1,786,665	Nominal	Up to 50% on 1 April 2005 and
		1,786,665	1,786,665	225p	the balance on 1 April 2006
G M Murphy	1,333,332		1,333,332	Nominal	Up to 50% on 1 April 2005 and
		1,333,332	1,333,332	225p	the balance on 1 April 2006
P C Murray	733,332		733,332	Nominal	Up to 50% on 1 April 2005 and
		733,332	733,332	225p	the balance on 1 April 2006

Notes

(1) There have been no changes in these interests between the year end and the date of this document.

PENSIONS

All executive directors are eligible to participate in a directors' contributory defined benefit pension scheme, within the main Carlton Communications Plc Group pension scheme. The directors' pension scheme enables members to retire at age 60 with a maximum pension after 30 years' pensionable service equivalent to 2/3rds of final pensionable salary. Pensionable salary is basic salary, excluding bonuses. Final pensionable salary is the average of pensionable salary over the last three years before retirement. On death before retirement, a lump sum equal to four times pensionable salary is paid, together with a spouse's pension of 4/9ths of pensionable salary. Pensions in payment are guaranteed to increase in line with inflation up to 5 per cent a year.

Table 5 – Pensions

The following information relates to the three directors (2001: two directors) who participated during the year in the directors' pension scheme⁽¹⁾:

Director	Age at 30 September 2002	Director's contributions in the year ⁽²⁾ £000	Increase in accrued pension during the year ⁽³⁾ £000	Accumulated total accrued pension at 30 September 2002 £000
M P Green	54	40	18	134
G M Murphy	46	6	2	3
P C Murray	40	12	5	5

Notes

- (1) The pension entitlement shown is that which would be paid annually at the normal date of retirement (age 60), based on service to 30 September 2002.
- (2) These relate to the contributions paid in the year by the director under the terms of the scheme.
- (3) The increase in accrued pension during the year excludes any increase for inflation.
- (4) In addition to G M Murphy's participation in the directors' pension scheme, Company contributions of £112,068 (2001: £113,350) were made during the year into his money purchase pension plan.
- (5) B A Cragg and N N Walmsley did not participate in the directors' pension scheme. Company contributions of £500,000 (2001: £134,000) and £87,420 (2001: £87,420) respectively, were made into their money purchase pension plans. The Company contribution made to B A Cragg's pension plan comprised a normal contribution of £291,300 and a special contribution of £208,700.

SERVICE CONTRACTS

G M Murphy's and P C Murray's service agreements are terminable on one year's notice by either party, save on a change of control whereupon for one year thereafter the contract is terminable by the Company on two years' notice.

No executive director has a service contract containing a notice entitlement exceeding one year, except as set out above.

OUTSIDE APPOINTMENTS

Executive directors are encouraged to accept non-executive directorships offered by FTSE-100 and FTSE-250 companies and other organisations which provide industry experience or public service. Outside appointments are subject to prior Board approval, taking into account existing duties and potential conflicts of interest. Fees paid for these services are normally retained by the executive director concerned.

NON-EXECUTIVE DIRECTORS' FEES

The executive directors are responsible for setting the non-executive directors' fees. Non-executive directors do not receive benefits or pension contributions from the Group and do not participate in any Group incentive scheme.

Approved by the Board on 26 November 2002

A handwritten signature in black ink, appearing to be 'DA', with a stylized flourish at the end.

David Abdo, LLB, Company Secretary