

## Report on Directors' remuneration

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### The Remuneration Committee

The *Remuneration Committee* of the Board consists solely of non-executive Directors of the Company. The terms of reference for the *Remuneration Committee* are to determine the Group's policy on executive remuneration and to consider and approve salaries and other terms of the remuneration packages for the executive Directors. The Committee receives advice from leading independent firms of compensation and benefit consultants when necessary and the Chief Executive is fully consulted about remuneration proposals. The Chairman's remuneration is decided in the absence of the Chairman. Membership of the *Remuneration Committee* is set out on page 37.

### Remuneration policy

CRH is an international group of companies, with activities in 22 countries. Our policy on Directors' remuneration is designed to attract and retain Directors of the highest calibre who can bring their experienced and independent views to the policy, strategic decisions and governance of CRH.

In setting remuneration levels, the *Remuneration Committee* takes into consideration the remuneration practices of other international companies of similar size and scope. Executive Directors must be properly rewarded and motivated to perform in the best interest of the shareholders. The spread of the Group's operations requires that the remuneration packages in place in each geographical area are appropriate and competitive for that area.

Performance related rewards, based on measured targets, are a key component of remuneration. CRH strategy of fostering entrepreneurship in its regional companies requires well designed incentive plans that reward the creation of shareholder value through organic and acquisitive growth. The typical elements of the remuneration package for executive Directors are basic salary and benefits, a cash incentive bonus, a contributory pension scheme and participation in the share option plan. It is policy to grant options to key management to encourage identification with shareholders' interests and to create a community of interest among different regions and nationalities.

The Group also operates share participation plans and savings-related share option schemes for eligible employees in all regions where the regulations permit the operation of such plans. In total there are approximately 4,300 employees of all categories who are shareholders in the Group.

### Executive Directors' remuneration

#### *Basic salary and benefits*

The basic salaries of executive Directors are reviewed annually having regard to personal performance, company performance, step changes in responsibilities and competitive market practice in the area of operation. Employment related benefits relate principally to the use of company cars for Europe-based Directors

and to medical/life assurance for US-based Directors. No fees are payable to executive Directors.

#### *Performance related cash incentive plan*

The executive Directors' cash incentive plan for 2002, under which a bonus could be paid up to a maximum of 60% of basic salary for Europe-based Directors and 90% for US-based Directors for meeting clearly defined and stretch profit targets and strategic goals, comprised five separate components, based on annual and rolling three-year performance targets.

The two components related to annual performance were:

- (i) Individual performance: Strategic priorities and action plans were agreed at the start of the year, and quantified where possible. The maximum award was 10% of basic salary.
- (ii) Regional and/or Group profitability: Challenging targets generally in excess of budget were set for the year. The maximum award for this component was 25% of basic salary for Europe-based Directors and 55% for US-based Directors.

The three components related to rolling three-year performance, under which the total maximum earnings potential was 25% of basic salary for the year, were as follows:

- (iii) Earnings per share growth targets.
- (iv) Return on net assets targets.
- (v) Total shareholder returns relative to an independently selected group of international peers.

In addition, the Chief Executive has a special long-term incentive plan under which targets have been set for a five-year period. Exceptionally challenging goals have to be achieved in respect of total shareholder returns by comparison with a peer group, growth in earnings per share and the strategic development of the Group. The total maximum earnings potential is 40% of average basic salary. While accruals are made on an annual basis, there is no commitment to any payment until the end of the five-year period.

#### *Share option scheme*

Under the terms of the share option scheme approved by shareholders on 3rd May 2000, two types of options are available subject to different performance conditions as set out below:

- (i) Exercisable only when earnings per share (EPS) growth exceeds the growth of the Irish Consumer Price Index by 5% compounded over a period of at least three years subsequent to the granting of the options.
- (ii) Exercisable if, over a period of at least five years subsequent to the granting of the options, the growth in EPS exceeds the growth of the Irish Consumer Price Index by 10% compounded and places the Company in the top 25% of EPS performance of a peer group of international building materials companies. If below the 75th percentile, these options are not exercisable.

The percentage of share capital which can be issued under the scheme and individual grant limits comply with institutional guidelines. Subject to satisfactory performance, options are expected to be awarded annually, ensuring a smooth progression over the life of the share option scheme. Grants of share options are at the market price of the Company's shares at the time of grant, and are made after the final results announcement ensuring transparency.

#### **Non-executive Directors' remuneration**

The remuneration of non-executive Directors is determined by the Board of Directors as a whole. The fees paid to non-executive Directors are set at a level which will attract individuals with the necessary experience and ability to make a substantial contribution to the Company's affairs and reflect the time and travel demands of their Board duties.

#### **Pensions**

Pensions for executive Directors are calculated on basic salary only (no incentive or benefit elements are included).

Europe-based Directors participate in a defined benefit plan designed to provide two-thirds of salary at retirement for full service. There is provision for these executive Directors to retire at 60 years of age and, in the case of the Chief Executive, to retire on completion of five years in the role of Chief Executive.

US-based Directors participate in a funded Internal Revenue Service (IRS) approved plan in respect of basic salary up to US\$200,000, and in an unfunded Supplemental Executive Retirement Plan (SERP) in respect of basic salary in excess of US\$200,000. Both these plans are defined contribution plans.

Since 1991, it has been your Board's policy that non-executive Directors do not receive pensions. A defined benefit scheme was in operation prior to 1991 in which one current non-executive Director still participates.

#### **Directors' service contracts**

No executive Director has an employment contract extending beyond twelve months.

#### **Directors' remuneration and interests in share capital**

Details of Directors' remuneration charged against profit in the year are given on page 44. Details of individual remuneration and pension benefits for the year ended 31st December 2002 are given on page 45. Directors' share options and shareholdings are shown on page 46 and page 47 respectively.

## Report on Directors' remuneration

### Directors' remuneration

Notes	<b>2002</b> <b>€'000</b>	2001 €'000
<b>Executive Directors</b>		
Basic salary	<b>3,542</b>	2,150
Cash incentive bonus	<b>1,386</b>	857
Pension fund contributions	<b>760</b>	533
Benefits	<b>106</b>	73
Other remuneration	<b>–</b>	11
1	<b>5,794</b>	3,624
2	<b>364</b>	336
Provision for Chief Executive long-term incentive plan		
Total executive Directors' remuneration	<b>6,158</b>	3,960
Average number of executive Directors	<b>6</b>	4
<b>Non-executive Directors</b>		
Fees	<b>369</b>	355
Other remuneration	<b>353</b>	359
1	<b>722</b>	714
Total non-executive Directors' remuneration		
Average number of non-executive Directors	<b>9</b>	9
3	<b>106</b>	101
Payments to former Directors		
<b>Total Directors' remuneration</b>	<b>6,986</b>	4,775

#### Notes to Directors' remuneration

- 1 See analysis of 2002 remuneration by individual on page 45.
- 2 As set out on page 43, the Chief Executive has a special long-term incentive plan tied to the achievement of exceptional growth and key strategic goals. While a provision is made, there is no commitment to any payment until after employment to the full term has been completed.
- 3 Consulting and other fees paid to a number of former Directors.

## Individual remuneration for the year ended 31st December 2002

	Basic salary and fees	Incentive bonus (i)	Pension contributions	Other remuneration (ii)	Benefits (iii)	Total 2002	Total 2001
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
<b>Executive Directors</b>							
B.E. Griffin	468	182	116	–	21	787	750
B.G. Hill	468	220	116	–	18	822	684
T.W. Hill (iv)	624	248	94	–	12	978	–
W.I. O'Mahony	910	309	226	–	21	1,466	1,420
H.P. Sheridan	490	167	121	–	19	797	770
J.L. Wittstock (iv)	582	260	87	–	15	944	–
	<b>3,542</b>	<b>1,386</b>	<b>760</b>	<b>–</b>	<b>106</b>	<b>5,794</b>	<b>3,624</b>
<b>Non-executive Directors</b>							
B.T. Alexander	41	–	–	12	–	53	49
D. Dey	41	–	–	12	–	53	49
D. Godson	41	–	–	12	–	53	49
J.J. Hayes (v)	–	–	–	–	–	–	42
D.M. Kennedy	41	–	–	21	–	62	59
H.E. Kilroy	41	–	–	12	–	53	49
K. McGowan	41	–	–	20	–	61	57
P.J. Molloy	41	–	–	229	–	270	250
A. O'Brien	41	–	–	12	–	53	49
W.P. Roef	41	–	–	23	–	64	61
	<b>369</b>	<b>–</b>	<b>–</b>	<b>353</b>	<b>–</b>	<b>722</b>	<b>714</b>

- (i) **Incentive bonus** Under the executive Directors' cash incentive plan for 2002, a bonus is payable for meeting clearly defined and stretch profit targets and strategic goals. The structure of the 2002 incentive plan is set out on page 43.
- (ii) **Other remuneration** Includes remuneration for Chairman and for Board Committee work.
- (iii) **Benefits** These relate principally to the use of company cars for Europe-based Directors and to medical/life assurance for US-based Directors.
- (iv) Mr. T.W. Hill and Mr. J.L. Wittstock became Directors on 1st January 2002.
- (v) Mr. J.J. Hayes retired on 9th May 2001.

## Pension entitlements - defined benefit

Pension benefits earned by Directors during the year and the accumulated total accrued pension at 31st December 2002 were as follows:

	Increase in accrued pension during 2002 (i)	Transfer value of increase (ii)	Total accrued pension at year-end (iii)
	€'000	€'000	€'000
<b>Executive Directors</b>			
B.E. Griffin	19	300	323
B.G. Hill	14	207	300
W.I. O'Mahony	25	360	571
H.P. Sheridan	15	224	326
<b>Non-executive Director</b>			
D.M. Kennedy	1	11	13

- (i) The increase in accrued pension during the year excludes inflation.
- (ii) The transfer value of the increase in accrued pension has been calculated on the basis of actuarial advice. These transfer values do not represent sums paid or due, but are the amounts that the pension scheme would transfer to another pension scheme in relation to the benefits accrued in 2002 in the event of the member leaving service.
- (iii) Accrued pension shown is that which would be paid annually on normal retirement date, based on service to the end of the year.

## Pension entitlements - defined contribution

The accumulated liability related to the SERP unfunded plan for US-based Directors is as follows:

	As at 31st December 2001	2002 contribution	2002 notional interest adjustment (iv)	Translation adjustment	As at 31st December 2002
	€'000	€'000	€'000	€'000	€'000
<b>Executive Directors</b>					
T.W. Hill	363	72	24	-64	395
J.L. Wittstock	415	66	27	-72	436

- (iv) Notional interest, which is calculated based on the US 30-year Treasury Rate plus 1%, is credited to the individual accounts each year.

## Report on Directors' remuneration

### Directors' interests

The Company's Register of Directors' Interests contains full details of Directors' shareholdings and options to subscribe for shares.

### Directors' share options

Details of movements on outstanding options and those exercised during the year are set out in the table below:

	31st December 2001*	Granted in 2002	Exercised in 2002	31st December 2002	Options exercised during 2002		
					Weighted average option price at 31st December 2002	Weighted average exercise price	Weighted average market price at date of exercise
					€	€	€
B.E. Griffin	120,758	–	21,956	98,802 (a)	16.51	12.64	13.75
	208,582	–	109,780	98,802 (b)	13.71	6.76	13.75
B.G. Hill	120,758	–	–	120,758 (a)	14.08		
	214,071	–	–	214,071 (b)	9.55		
	75,000	50,000	–	125,000 (c)	18.84		
T.W. Hill*	87,824	–	–	87,824 (a)	16.50		
	181,137	–	–	181,137 (b)	14.56		
	60,000	50,000	–	110,000 (c)	18.92		
	60,000	50,000	–	110,000 (d)	18.92		
W.I. O'Mahony	442,262	–	101,944	340,318 (a)	11.06	2.28	14.85
	323,851	–	–	323,851 (b)	11.41		
	125,000	100,000	–	225,000 (c)	18.90		
	150,000	100,000	–	250,000 (d)	18.84		
	783	–	–	783 (e)	15.39		
H.P. Sheridan	120,758	–	49,401	71,357 (a)	17.26	13.71	16.88
	225,049	–	126,247	98,802 (b)	13.71	6.73	17.93
	125,000	–	–	125,000 (c)	18.28		
	783	–	–	783 (e)	15.39		
J.L. Wittstock*	155,159	–	–	155,159 (a)	11.75		
	214,071	–	–	214,071 (b)	12.91		
	60,000	50,000	–	110,000 (c)	18.92		
	60,000	50,000	–	110,000 (d)	18.92		
	<u>3,130,846</u>	<u>450,000</u>	<u>409,328</u>	<u>3,171,518</u>			

\* Mr. T.W. Hill and Mr. J.L. Wittstock became Directors on 1st January 2002. The opening balances and transactions detailed above and in the following table relate to the position at date of appointment and to the period since that date.

### Options by price

€	31st December 2001*	Granted in 2002	Exercised in 2002	31st December 2002	Earliest exercise date	Expiry date
2.2754	101,944	–	101,944	– (a)		
4.1058	67,335	–	–	67,335 (a)	March 2003	October 2004
6.5347	126,247	–	–	126,247 (a)	March 2003	April 2006
6.5347	356,785	–	148,203	208,582 (b)	March 2003	April 2006
7.0899	21,956	–	–	21,956 (a)	March 2003	April 2007
7.0899	131,736	–	87,824	43,912 (b)	March 2003	April 2007
7.1015	43,912	–	–	43,912 (a)	March 2003	April 2007
7.1015	120,758	–	–	120,758 (b)	March 2003	April 2007
12.6416	115,269	–	43,912	71,357 (a)	March 2003	April 2008
12.6416	230,538	–	–	230,538 (b)		April 2008
14.5652	76,846	–	27,445	49,401 (a)	March 2003	April 2009
14.5652	153,692	–	–	153,692 (b)		April 2009
14.6563	76,846	–	–	76,846 (a)	March 2003	April 2009
14.6563	153,692	–	–	153,692 (b)		April 2009
17.2615	307,384	–	–	307,384 (a)	April 2003	April 2010
17.2615	54,890	–	–	54,890 (b)		April 2010
18.0084	109,780	–	–	109,780 (a)	April 2003	April 2010
18.0084	164,670	–	–	164,670 (b)		April 2010
18.28	445,000	–	–	445,000 (c)		April 2011
18.28	270,000	–	–	270,000 (d)		April 2011
19.68	–	250,000	–	250,000 (c)		April 2012
19.68	–	200,000	–	200,000 (d)		April 2012
15.39	1,566	–	–	1,566 (e)		November 2004
	<u>3,130,846</u>	<u>450,000</u>	<u>409,328</u>	<u>3,171,518</u>		

No options lapsed during the year. The market price of the Company's shares at 31st December 2002 was €11.75, and the range during 2002 was €11.10 to €20.70.

- (a) Granted under the 1990 share option scheme, these options are only exercisable when earnings per share (EPS) growth exceeds the growth of the Irish Consumer Price Index over a period of at least three years subsequent to the granting of the options.
- (b) Granted under the 1990 share option scheme, these options are only exercisable if, over a period of at least five years subsequent to the granting of the options, the growth in EPS would place the Company in the top 25% of the companies listed in the FTSE 100 Stock Exchange Equity Index.
- (c) Granted under the 2000 share option scheme, these options are only exercisable when EPS growth exceeds the growth of the Irish Consumer Price Index by 5% compounded over a period of at least three years subsequent to the granting of the options.
- (d) Granted under the 2000 share option scheme, these options are only exercisable if, over a period of at least five years subsequent to the granting of the options, the growth in EPS exceeds the growth of the Irish Consumer Price Index by 10% compounded and places the Company in the top 25% of EPS performance of a peer group of international building materials companies. If below the 75th percentile, these options are not exercisable.
- (e) Granted under the 2000 savings-related share option scheme.

#### Directors' interests in share capital at 31st December 2002

The interests of the Directors and Secretary in the shares of the Company, which are beneficial unless otherwise indicated, are shown below. Between 31st December 2002 and 3rd March 2003 there were no transactions in the Directors' and Secretary's interests.

The Directors and Secretary have no beneficial interests in any of the Group's subsidiary, joint venture or associated undertakings.

Ordinary Shares	31st December 2002	31st December 2001
<b>Directors</b>		
B.T. Alexander	1,890	1,881
D. Dey	2,815	2,780
D. Godson	400,000	500,000
B.E. Griffin	377,294	242,213
B.G. Hill	386,384	386,384
T.W. Hill	51,960 <sup>†</sup>	43,234*
D.M. Kennedy	53,644	53,261
- Non-beneficial	9,250	9,250
H.E. Kilroy	55,887	55,887
K. McGowan	4,085	2,061
P.J. Molloy	7,773	7,687
A. O'Brien	2,457	2,430
W.I. O'Mahony	453,840	351,212
W.P. Roef	1,389	1,370
H.P. Sheridan	817,374	741,058
J.L. Wittstock	42,667	42,201*
<b>Secretary</b>		
A. Malone	19,632	18,890
	<b><u>2,688,341</u></b>	<b><u>2,461,799</u></b>

<sup>†</sup> Mr. T.W. Hill's shareholding as at 31st December 2002 includes 21,726 shares which are held in the form of American Depository Receipts (ADRs). One ADR represents one Ordinary Share of the Company.

\* Holding as at date of appointment.