

Directors' report on remuneration

This report to shareholders has been prepared in accordance with the requirements of the Directors' Remuneration Report Regulations 2002 ("the Remuneration Report Regulations") and also meets the relevant requirements of the Listing Rules of the UK Listing Authority. It covers the remuneration policy for directors and includes specific disclosures relating to directors' emoluments, their shares and other interests. This remuneration report is being put to shareholders at the forthcoming annual general meeting for an advisory vote. The vote will be in respect of the remuneration policy and overall remuneration packages and will not be specific to individual levels of remuneration.

1 The Remuneration Committee

During the year, the Remuneration Committee ("the Committee"), which has formal terms of reference approved by the Board, recommended to the Board the broad policy for the remuneration of the Chairman, the executive directors and other senior executives. A copy of the terms of reference of the Committee which were revised on 11 February 2004 is available on the Company's website at www.lowandbonar.com.

The Committee currently comprises the following non-executive directors of the Company, Chris Davies (who was appointed as Chairman of the Committee on 21 April 2004 upon the retirement of Alan Cole) and Steve Hannam, both of whom are considered by the Board to be independent. The Chairman, Duncan Clegg is invited to attend meetings of the Committee other than when his own remuneration is under consideration. The Group Chief Executive may be invited to attend meetings of the Committee.

During the year, the Committee received material assistance in respect of the Chairman's revised remuneration arrangements from Independent Remuneration Solutions who were appointed by the Committee and from Freshfields Bruckhaus Deringer, the Company's main legal advisers. Alithos Limited provides information to the Committee on the performance conditions relating to awards made under the Company's long-term incentive plans. The Committee also received assistance during the year from the Group Chief Executive and the Company Secretary.

2 Policy on executive director and senior executive pay and benefits

The Group's remuneration policy is to ensure that the remuneration of executive directors and senior executives properly reflects their duties and responsibilities and is sufficient to recruit, retain and motivate high-quality executive talent whilst aligning the interests of senior executives as closely as possible with the interests of shareholders. The main components of the remuneration of the executive directors are:

i) Basic salary When reviewing the base salaries of the executive directors, the Committee follows the principle that levels should be based around the median remuneration paid for similar job functions in comparable public companies with variations to reflect individual performance and experience. For guidance, the Committee may consider surveys produced by professional consultants.

ii) Short-term bonus A bonus scheme was developed for executive directors and senior executives in 2003 as part of a performance-related reward structure which was developed with the assistance of independent advisers Freshfields Bruckhaus Deringer. The bonus scheme provides an annual bonus up to 100% of basic salary provided that a combination of Divisional and Company financial performance targets are met. The bonus scheme is part of a "performance contract" under which these executives are rewarded for exceptional annual performance but under which failure to meet targets on a sustained basis is likely to result in their notice period being shortened so that, in the event of termination of their employment, the Company's compensation costs would be substantially reduced. In most cases, this involves a halving of their notice periods. This "performance contract" adopts the principles in the Association of British Insurers' December 2002 guidelines on executive remuneration.

For the year ended 30 November 2004, the executive directors earned a short-term bonus of 55% of annual basic salary based on the achievement of two financial performance targets approved by the Committee. The performance targets were based on growth in Group profit and operating cashflow. 91% of the bonus payable was payable on the achievement of the operating cashflow target. In 2005, the executive directors will again be eligible to receive a short-term bonus of up to 100% of salary based on the achievement of financial targets relating to net average borrowings and growth in Group profit. The bonus targets have been structured so that 60% relate to profit growth and 40% to borrowings. To earn elements relating to average net borrowings, a minimum profit target must be achieved.

iii) Long-term incentive plans

The Low & Bonar 2003 Long-Term Incentive Plan (the "2003 LTIP") The 2003 LTIP, approved by shareholders on 14 February 2003, forms the long-term element of the remuneration structure for the executive directors and senior executives. Both restricted share awards and share options may be granted under the 2003 LTIP.

Each element of the 2003 LTIP is described below:

Restricted share awards made under the 2003 LTIP entitle participants to receive ordinary shares without payment after a three-year period, provided a demanding performance target set by the Committee is achieved. All restricted share awards granted in 2003 and 2004 are "Recovery Phase Awards" (RPAs). These are high-value/high-performance awards which will only vest if the Company meets demanding share price growth targets and other conditions described below. The Committee has granted RPAs only to executives who have entered into the performance contract described above and RPAs will lapse if a participant's notice period is shortened for breach of the performance contract. With the exception of the Group Chief Executive who received an RPA on 28 March 2003 based on 200% of his annual basic salary, the maximum restricted share award that can be made to a participant under the 2003 LTIP in any financial year shall not exceed 100% of annual basic salary. No further RPAs will be granted.

The following performance conditions need to be met in order for RPAs to vest:

- 1) Full vesting of RPAs will require a 125% increase in the Company's share price from a base price prior to the grant of the RPAs (the "Initial Price") during the three-year period from the date of the award. Half of the shares will vest if the Company's share price increases by 100% over the same period. The Initial Price for these awards will usually be the average price for the four-month period ending immediately before the grant of the RPAs (subject to a "floor" share price of 48.30p). An exception was made in the case of RPAs granted to two senior executives on 11 July 2003; the Initial Price for these awards was the same as the Initial Price for RPAs made on 28 March 2003 e.g. 53.64p in order to foster the team dynamic intended by the 2003 LTIP. Full vesting of RPAs granted on 28 March 2003 and 11 July 2003 requires an increase in the share price to 120.69p. Half of the shares will vest if the share price increases to 107.28p. Full details of RPAs granted to two senior executives during 2004 are provided in note 18 to the accounts. The Initial Price for the two RPAs granted in 2004 is the average price for the four-month period ending immediately before the date of grant of the RPAs.
- 2) The Company's earnings per share (before exceptional items) must increase by a 6% margin over the increase in the Retail Price Index over the three-year period commencing with the financial year in which the grant of the RPA falls.
- 3) The percentage increase in the Company's share price over the three-year performance period (including the value of dividends which are assumed to be reinvested in ordinary shares on the date of payment by the Company) must equal or exceed the percentage increase in the FTSE Small Cap Total Return Index over the same period.

During the year, the third performance condition as set out above was amended by the Committee to include the value of reinvested dividends when determining the percentage increase in the Company's share price. The purpose of this amendment was to achieve direct comparability between the FTSE Small Cap Total Return Index (which takes account of reinvested dividends in its method of calculation) and the Company's own share price performance. The Committee was satisfied that the original intention was to achieve a like-for-like comparison, and that this would only be achieved if the amendment was made. This amendment will apply to awards already made under the 2003 LTIP. The other performance conditions relating to the 2003 LTIP remain unchanged.

There will be no retest opportunities for any of the performance conditions.

To the extent that ordinary shares vest, they will be released in equal tranches on the vesting date and the two anniversaries following vesting. If a participant leaves employment for any reason after the vesting date but before the final tranche of vested ordinary shares under the RPA has been released to the participant, they will not be entitled to any further tranches of vested ordinary shares unless the Committee permits this at its absolute discretion. However if a participant leaves employment due to his death, ill health, retirement or redundancy they, or in the case of their death their estate, will be entitled to all such further tranches of vested ordinary shares under the RPA on the date or dates on which they would otherwise have been released to the participant.

In 2005 and subsequent years, the Committee may grant restricted share awards based on different performance targets which it considers to be appropriately demanding. It is the intention of the Committee that these performance targets will be fully described in the directors' report on remuneration, which will be voted on by shareholders, in the year prior to these awards being made. The Committee has no intention to make any restricted share awards in 2005.

Options granted under the 2003 LTIP will entitle participants to acquire ordinary shares at no less than the market value of an ordinary share at the time of grant, provided that an appropriate performance target set by the Committee is achieved. Provided the performance target is achieved, options will normally be exercisable between the third and tenth anniversaries of grant. Participants will not normally be granted share options in the same year as they receive restricted share awards.

Options were granted to 21 members of the Group's senior management on 10 August 2004 at an option price of 112.5p per share, being the market value of an ordinary share on 9 August 2004. The options will not be exercisable unless the Company's averaged annual compound growth in earnings per share (before exceptional items) is at least 10% over the three-year period commencing with the financial year ending 30 November 2004. There will be no opportunity to retest the performance target. If the option does not satisfy the performance target, it will lapse unexercisable. The Plan also permits the grant of phantom options to participants; phantom options were granted during the financial year to 30 November 2004, but these grants were not made to directors of the Company. Full details of this grant of options are given in note 18 to the accounts.

No options were granted to the executive directors or any participants who have been awarded an RPA.

The Low & Bonar 1999 Senior Executive Long-Term Incentive Plan ("the 1999 Plan") The 1999 Plan was approved by shareholders in 1999. The maximum award that could be made under the 1999 Plan in any one year was based on 100% of a participant's basic annual salary. If shares vest they are released to participants without payment. There are no outstanding awards under the 1999 Plan. The performance target for the award made on 28 March 2001 which lapsed on 28 March 2004 is detailed in Table 5 below. No shares have been released to participants under the 1999 Plan as no awards made under the 1999 Plan have met the performance conditions and all awards have lapsed. Following the adoption by shareholders of the 2003 LTIP, no further awards will be made under the 1999 Plan.

iv) Other share-based incentives No share options have been granted under the Company's 1994 (No. 1) Management Share Option Scheme and 1994 (No. 2) Management Share Option Scheme since February 1999 and no further share options will be granted. No executive director had any executive share options outstanding at 30 November 2004.

Executive directors remain eligible to participate in the Low & Bonar 1997 Sharesave Scheme, which is open to all eligible UK employees. During the year options were granted under three or five year SAYE contracts at a 20% discount to the share price at the offer date. Prior to 2004 options were also granted on seven year SAYE contracts. The maximum overall employee contribution is £250 per month. Details of each director's interest in this scheme are shown in Table 6 below.

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3 Policy on directors' service contracts

Paul Forman's employment may be terminated by the Company giving him not less than 12 months' notice in writing or by Paul Forman giving the Company not less than six months' notice in writing. In the event of termination by the Company, the Company has the discretion to make a payment in lieu of notice and the Committee may award him a bonus for the year of termination. If Paul Forman's employment is terminated within 12 months of a change of control of the Company, he will be entitled to a bonus in addition to the amount of any payment in lieu of notice. The bonus payable will be the average of the bonuses paid or payable to him in respect of the complete bonus years prior to the date on which his employment is terminated (subject to a maximum of three years preceding that date).

Jon Kempster's employment may be terminated by the Company giving him not less than 12 months' notice in writing or by Jon Kempster giving the Company not less than three months' notice in writing. In the event of termination by the Company, the Company has the discretion to make a payment in lieu of notice.

Paul Forman and Jon Kempster have both entered into a letter of variation to their service contract under which they are eligible to participate in a bonus arrangement which provides for an annual bonus of up to 100% of salary provided that a combination of specific annual performance targets are met, as detailed in section 2(ii) above. Certain performance targets will be capable of receiving a "Strike". Failure to achieve one or more of these performance targets in any financial year will constitute a "Strike". In the event of two Strikes in any period of three years the Company shall be entitled to terminate the employment of Paul Forman on 12 weeks' notice or Jon Kempster on six months' notice (rather than the 12 months' notice to which Paul Forman and Jon Kempster would be entitled on dismissal by the Company other than dismissal for gross misconduct). Neither Paul Forman nor Jon Kempster received a Strike during the financial years ended 30 November 2004 and 30 November 2003.

4 Policy on non-executive directors' fees and appointment

The remuneration of the non-executive directors is determined by the Board, based on recommendations from the Nomination Committee, with the non-executive directors concerned not participating in the decision. The Committee determines the remuneration of the Chairman. Remuneration paid to the Chairman and to the non-executive directors during the year is shown in Table 2 below.

The non-executive directors have letters of appointment renewable for periods of three years. Steve Hannam and Chris Davies have letters of appointment for three years from 1 September 2002 and 1 November 2002 respectively. The appointment of the non-executive directors may be terminated by either the director or the Company giving six months' notice in writing. The non-executive directors do not participate in the Company's annual bonus scheme, in any of the Company's share incentive schemes or in the Company's pension scheme.

5 Policy on the Chairman's remuneration

In March 2004, the Committee commissioned adviser Independent Remuneration Solutions to undertake a review of the remuneration paid to the Chairman, Duncan Clegg. As a result of this review the Committee decided that in order to align the interests of Duncan Clegg more closely with those of shareholders, he should receive part of his fees in the form of Low & Bonar ordinary shares. Duncan Clegg has agreed to retain the shares received under this arrangement for the period of his Chairmanship.

Duncan Clegg has entered into a new service contract with the Company dated 28 October 2004 ("the New Service Agreement") under which his remuneration comprises cash and share elements with retrospective effect from 1 April 2004. The cash element is a salary at the rate of £55,000 per annum and a further fee of £6,350 per annum as Chairman of the Trustee Board of the Low & Bonar Group Retirement Benefit Scheme; the Company's pension scheme. The share element is a number of shares derived by dividing a notional fee of £30,000 per annum by a reference share price which is reset periodically. For the period April 2004 to November 2005, the share element is at the rate of 28,571 Low & Bonar ordinary shares per annum. This is based on a 105p reference share price (the market value of a share shortly before these arrangements were approved by the Company's Remuneration Committee on 20 April 2004). The share element will be delivered to Duncan Clegg on a six-monthly basis (net of tax deductions). The reference share price will be reset every two years, with the first reset occurring in February 2006 governing the period December 2005 to November 2007. The share element will be satisfied from shares held or acquired by Hill Samuel Offshore Trust Company Limited, the Trustee of the Low & Bonar 1995 Employees' Share Ownership Plan Trust.

In accordance with this arrangement, 2,809 shares were transferred by the Trustee to Duncan Clegg on 15 December 2004 representing the after-tax share element due in respect of the months of April and May 2004.

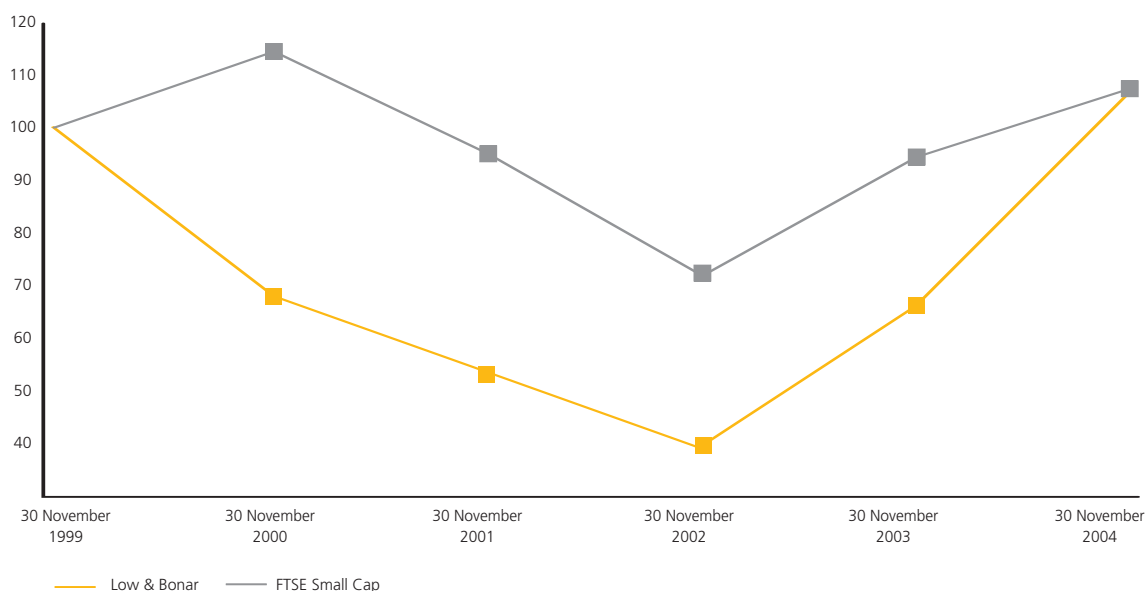
Duncan Clegg will be entitled to a further 14,285 shares, (being 8,428 shares after tax), following the Company's announcement of the 2004 preliminary results in respect of the period from June 2004 to November 2004.

Duncan Clegg's appointment may be terminated by either he or the Company giving six months' notice in writing. He does not participate in the Company's annual bonus scheme, in any of the Company's share incentive schemes or in the Company's pension scheme.

6 Performance graph

The following graph charts the total cumulative shareholder return of the Company since 30 November 1999 against the return on the FTSE Small Cap Total Return Index (the "Index"). In the opinion of the Committee, the Index is the appropriate benchmark for the Company as the Company is a member of the Index and is also one of the performance measurements for the award of shares made under the Low & Bonar 2003 Long-Term Incentive Plan.

Total return indices – Low & Bonar and FTSE Small Cap



The auditors are required to report on the information contained in the following part of this report.

Table 1 Directors' emoluments for the year ended 30 November 2004

| | £ |
|---|----------------|
| Company | |
| Salaries | 385,840 |
| Bonus | 212,405 |
| Benefits in kind | 32,118 |
| Fees to non-executive directors | 143,826 |
| Gains made on exercise of share options and Long-Term Incentive Plan awards | – |
| Aggregate emoluments | 774,189 |

Table 2 Analysis of individual directors' emoluments

| | Salaries and fees £ | Annual bonuses £ | Benefits in kind ⁽¹⁾ £ | Total 2004 £ | Total 2003 £ |
|--------------------------------|------------------------|---------------------|--------------------------------------|-----------------|-----------------|
| Executive directors | | | | | |
| P A Forman ⁽¹⁾ | 238,500 | 131,294 | 17,159 | 386,953 | 392,169 |
| J Kempster ⁽¹⁾ | 147,340 | 81,111 | 14,959 | 243,410 | 245,991 |
| Non-executive directors | | | | | |
| R D Clegg ⁽²⁾⁽⁶⁾ | 77,087 | – | – | 77,087 | 83,710 |
| N R Clark ⁽³⁾ | – | – | – | – | 10,933 |
| A J Cole ⁽³⁾⁽⁴⁾ | 11,119 | – | – | 11,119 | 26,405 |
| C E Davies ⁽⁴⁾ | 27,120 | – | – | 27,120 | 23,230 |
| S J Hannam ⁽⁵⁾ | 28,500 | – | – | 28,500 | 25,082 |
| | 529,666 | 212,405 | 32,118 | 774,189 | 807,520 |

Notes:

- Benefits in kind are: car allowance and health insurance for the director and his spouse/children under 21.
- Included in the fee paid to Mr Clegg is a fee of £6,350 for his chairmanship of the Low & Bonar Group Retirement Benefit Scheme ("the Scheme"). This fee is re-charged by the Company to the Scheme.
- Dr Clark and Mr Cole resigned as directors on 30 April 2003 and 21 April 2004 respectively.
- Mr Davies received a fee of £2,120 for his chairmanship of the Remuneration Committee from 21 April 2004, following the retirement of Mr Cole as Remuneration Committee Chairman. During the year, Mr Cole received a fee of £1,365 for his chairmanship of the Remuneration Committee to his retirement on 21 April 2004.
- Mr Hannam received a fee of £3,500 for his chairmanship of the Audit Committee.
- In accordance with his New Service Agreement, Mr Clegg will receive a further 14,285 shares, or 8,428 shares representing the after-tax share element, following the Company's announcement of the 2004 preliminary results in respect of the period from 1 June 2004 to 30 November 2004.

Directors' report on remuneration *continued*

Pension entitlements

Paul Forman and Jon Kempster are not members of the Company's pension scheme. Paul Forman and Jon Kempster are entitled to a sum equal to 30% and 25% of their basic salary respectively to enable them to make retirement benefit arrangements. Payments made under this arrangement during the year to Mr Forman and Mr Kempster were £52,110 and £36,835 respectively. An employer's contribution of £19,440 was also paid by the Company into a personal pension plan for Mr Forman.

Table 3 Directors' interests in shares

The beneficial interests of the directors in the ordinary 50p shares of the Company as at 30 November 2004 were:

| | 30 November 2004 | 1 December 2003 |
|------------|-----------------------------|--------------------|
| R D Clegg | 16,550 | 16,550 |
| P A Forman | 10,000 | 10,000 |
| C E Davies | 5,000 | 5,000 |
| S J Hannam | 40,878 | 40,878 |
| J Kempster | 13,590 | 13,590 |

Notes:

On 15 December 2004, Hill Samuel Offshore Trust Company Limited, the Trustee of the Low & Bonar 1995 Employees' Share Ownership Plan Trust ("the Trustee") transferred 2,809 ordinary shares to Mr Clegg representing the after-tax share element of the fee due to Mr Clegg in respect of the months of April and May 2004.

On 10 December 2004, the Trustee acquired 26,619 shares at a price of 122p per share for the purpose of the Company's arrangement with Mr Clegg to pay part of his fees in the form of shares. Following the transfer of 2,809 shares to Mr Clegg, as detailed above, the Trustee holds 23,810 shares. Mr Clegg and the executive directors are for Companies Act purposes deemed to be interested in all of these shares. The value of the pre-tax shares transferred to Mr Clegg are included in the fees paid to Mr Clegg detailed in Table 2 above.

No other changes to directors' interests during the period 1 December 2004 to 17 February 2005 have been notified to the Company.

No director held any beneficial interest in or options over shares in or debentures of any other Group company at 30 November 2004 or at 17 February 2005.

Table 4 The Low & Bonar 2003 Long-Term Incentive Plan (the "2003 LTIP")

Awards held by directors at 30 November 2004 under the 2003 LTIP were as follows:

| Director | At 1 December 2003 | Number of shares awarded | | Award price p | Vesting date ¹⁾ |
|------------|--------------------------|-----------------------------------|--|---------------------|-------------------------------|
| | | At 30 November 2004 | | | |
| J Kempster | 259,135 | 259,135 | | 53.64 | 28/03/06 |
| P A Forman | 838,926 | 838,926 | | 53.64 | 28/03/06 |

1) To the extent that ordinary shares vest, they will be released in equal tranches on the vesting date and the two anniversaries following vesting e.g. one-third will vest on 28 March 2006, one-third on 28 March 2007 and the final tranche on 28 March 2008.

During the year an amendment was made to one of the performance conditions applicable to the awards set out above. Full details of the performance conditions, including the amendment, are set out in 2(iii) above.

Table 5 The Low & Bonar 1999 Senior Executive Long-Term Incentive Plan (the "Plan")

Awards held by directors at 30 November 2004 under the Plan were as follows:

| Director | At 1 December 2003 | Number of shares awarded | | Award price p |
|------------|--------------------------|------------------------------|-----------------------------------|---------------------|
| | | Lapsed during the year | At 30 November 2004 | |
| J Kempster | 135,416 | 135,416 | Nil | 96.00 |

The performance target for the above award was based on Low & Bonar's total shareholder return over the period 1 December 2000 to 30 November 2003 measured against the FTSE Small Cap Total Return Index ("the Index"). No ordinary shares would be released unless the Company performed better than the median of the Index, at which point 25% of the award would be released at no cost, rising on a straight line basis to 100% of the award for a performance of 13% or more better than that of the Index.

The above award lapsed in total on 28 March 2004 as the performance target had not been satisfied.

Table 6 Directors' share options

Share options held by directors at 30 November 2004 under the Low & Bonar 1997 Sharesave Scheme were as follows:

| Director | At 1 December 2003 | Number of options | | At 30 November 2004 | Exercise price p | Dates options are exercisable |
|------------|--------------------------|---------------------------|-----------------------------|---------------------------|------------------------|-------------------------------------|
| | | Granted during year | Exercised during year | | | |
| J Kempster | 18,627 | – | – | 18,627 | 51 | 1/10/05 to 31/03/06 |

No options have been granted or exercised in the period from 1 December 2004 to 17 February 2005

The market price of the shares at 30 November 2004 was 119p and the range during the year to 30 November 2004 was 75.5p to 121.5p.

Christopher E Davies Chairman, Remuneration Committee
on behalf of the Board of directors

17 February 2005