

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

The Remuneration Committee (the "Committee"), has formal terms of reference approved by the Board, and in 2005 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 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, Chairman of the Committee; Steve Hannam; and Chris Littmoden, all 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 and the Committee also received assistance during the year from the Company Secretary and received advice from independent advisers, namely New Bridge Street Consultants and Freshfields Bruckhaus Deringer, in particular in relation to the deferred share award and the LTIP award made to Paul Forman in September 2005.

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 as follows.

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 2005, the executive Directors earned a short term bonus of 70% 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, 60%, and 40% of the bonus payable was payable on the achievement of net average borrowings targets. To earn the bonus relating to net average borrowings targets, a minimum profit target had to be achieved. In 2006, 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.

As notified to shareholders in the Circular dated 5 August 2005, Mr Forman also received a one off bonus of £250,000 for his exceptional achievement since joining the Company in September 2002. One third of this payment was paid to Mr Forman in cash in September 2005. The balance will be payable to him in shares, in equal parts on 5 September 2006 and 5 September 2007, being the first and second anniversaries of the cash payment, subject to him remaining in service on those dates. The number of shares comprised in the deferred element is 149,142, being the sum of £166,667 divided by 111.75 pence (being the mid-market price of a share on 2 September 2005). The Committee considers that the fact that a significant proportion of the bonus is deferred and invested in shares will act as an efficient retention tool and will achieve a strong alignment with shareholders' interests.

Mr Kempster was awarded a one-off bonus of £60,000 in September 2005 due to his contribution to the successful negotiation and completion of the disposal of the Plastics Division.

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.

Recovery Phase Awards

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. 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, i.e. 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 are provided in note 20 to the accounts.
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.

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.

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

Award made in 2005 and future awards

During the year, the Committee proposed that

- (a) a revised performance target should apply to future grants of awards (subject to the Committee's discretion under the 2003 LTIP rules to determine the performance condition that should apply). The revised performance target will relate to the Company's total shareholder return ("TSR") performance and earnings per share ("EPS") growth, in each case measured over a three year period. TSR performance will be measured over the three year period from date of the grant of the award, whilst EPS will be measured over the three year period commencing with the start of the financial year in which the date of grant of the award falls. For the TSR target, the Company's TSR performance will be ranked against the TSR performance of the constituent members of the FTSE Small Cap Total Return Index (the "comparator group"). An equal number of shares in each award will be subject to the TSR and EPS elements, which will operate as described below. There will be no retesting of any performance target.

For awards made to a participant of up to 100% of salary in any financial year

- (i) no part of the TSR element will vest if the Company's TSR ranking against the comparator group is less than median. At median, 25% of the shares under the award will vest. The award will vest in full for upper quartile performance with straight line vesting for performance between median and upper quartile points.
- (ii) no part of the EPS element will vest unless the Company's compound annual EPS growth over the three year period is more than 4% per annum above the Retail Price Index ("RPI"). For compound annual EPS growth of 4% per annum above RPI, 25% of shares under the award will vest. The award will vest in full for compound annual EPS growth of 9% per annum above RPI with straight line vesting for compound annual EPS growth between 4 and 9% per annum above RPI.

Directors' Report on Remuneration continued

For any awards made to a participant in excess of 100% of salary in any financial year then in relation to the excess

- (i) no part of the TSR element will vest if the Company's TSR ranking against the comparator group is less than upper quartile. The award will vest in full for upper decile performance with straight line vesting for performance between upper quartile and upper decile points.
 - (ii) no part of the EPS element will vest unless the Company's compound annual EPS growth over the three year period is more than 9% per annum above RPI. The award will vest in full for compound annual EPS growth of 12% per annum above RPI with straight line vesting of compound annual EPS growth between 9% to 12% per annum above RPI.
- (b) It is intended that future awards will be made on an annual basis, rather than every three years. Details of awards made during the year are included at note 20.
- (c) The maximum award which may be made to a participant in any financial year is 200% of salary. The increase to 200% was approved by shareholders at an extraordinary general meeting held on 31 August 2005. Prior to this, the maximum award was 100% of salary, 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 Committee is satisfied that this increase is appropriate, having regard to market practice in this area. Accordingly, the maximum number of shares which can vest under an award will be determined by dividing the relevant percentage of the participant's salary by the Company's share price at the time the award is made. The Committee will consider each year what percentage of salary awards should comprise, subject to the 200% limit.
- (e) The Committee intends to introduce share ownership guidelines. Executive Directors will normally be required to build up a shareholding equal to at least 100% of basic annual salary through the retention of 50% of the shares received (post-tax) on vesting of awards granted under the 2003 LTIP in the future.

Details of the restricted share award made to Paul Forman on 5 September 2005 in respect of 200% of his basic annual salary are provided in Table 4 below.

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 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. No options were granted to the executive Directors or any participants who have been awarded an RPA. 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. No options were granted during the year. Full details of the options granted in 2004 are given in note 20 to the accounts.

iv) Other Share Based Incentives

No share options have been granted under the 1994 (No. 1) Management Share Option Scheme and the 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 2005.

Executive Directors remain eligible to participate in the Low & Bonar 1997 Sharesave Scheme, which is open to all eligible UK employees. The maximum overall employee contribution is £250 per month. No option grant was made to employees during the year principally due to the capital restructuring. Details of each Director's interest in this scheme are shown in Table 5 below.

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 2005 and 30 November 2004.

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 Nominations 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 were appointed on 1 September 2002 and 1 November 2002 respectively. Their appointment has been renewed for a period of three years effective from 1 September 2005 and 1 November 2005 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

Duncan Clegg has a service contract with the Company dated 28 October 2004 (the "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. Duncan Clegg has agreed to retain the shares received under this arrangement for the period of his Chairmanship.

In accordance with this arrangement 8,428 shares were transferred by the Trustee to Duncan Clegg on 4 March 2005 representing the after tax share element due in respect of the period 1 December 2004 to 31 May 2005.

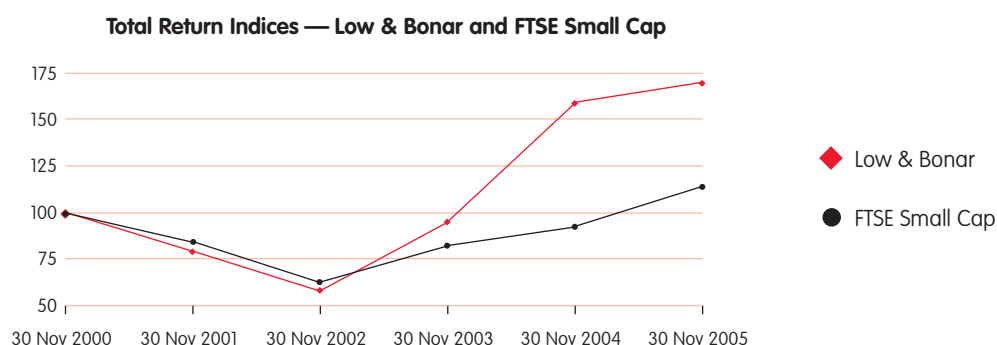
Duncan Clegg is entitled to a further 14,285 shares (being 8,428 shares after tax), following the Company's announcement of the 2005 preliminary results in respect of the period from 1 June 2005 to 30 November 2005.

Duncan Clegg's appointment may be terminated by either him 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 2000 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.

Directors' Report on Remuneration continued



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 2005

	£
Company	
Salaries	404,000
Bonus	421,934
Benefits in kind	141,188
Fees to non-executive Directors	175,416
	1,142,538
Gains made on exercise of share options and Long Term Incentive Plan awards	12,480
Aggregate emoluments	1,155,018

Table 2 Analysis of individual Directors' emoluments

	Salaries and fees £	Annual bonuses £	Pensions and Benefits in kind ¹ £	Total 2005 £	Total 2004 £
Executive Directors					
P A Forman ¹	252,000	255,534	88,229	595,763	386,953
J Kempster ¹	152,000	166,400	52,959	371,359	243,410
Non-Executive Directors					
R D Clegg ^{2,6}	94,634	–	–	94,634	77,087
A J Cole ³	–	–	–	–	11,119
C E Davies ⁴	29,350	–	–	29,350	27,120
S J Hannam ⁵	29,350	–	–	29,350	28,500
C Littmoden ⁷	22,082	–	–	22,082	–
	579,416	421,934	141,188	1,142,538	774,189

Notes

- ¹ Benefits in kind are a car allowance and health insurance for the Director and his spouse/children under 21. In addition, 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 £51,630 and £38,000 respectively. An employer's contribution of £19,440 was also paid by the Company into a personal pension plan for Mr Forman.
- ² 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 recharged by the Company to the Scheme.
- ³ Mr Cole resigned as Director on 21 April 2004.
- ⁴ Mr Davies received a fee of £3,600 for his Chairmanship of the Remuneration Committee.
- ⁵ Mr Hannam received a fee of £3,600 for his Chairmanship of the Audit Committee.
- ⁶ In accordance with his Service Agreement, Mr Clegg will receive a further 14,285 shares (being 8,428 shares after tax), following the Company's announcement of the 2005 preliminary results in respect of the period from 1 June 2005 to 30 November 2005.
- ⁷ Mr Littmoden was appointed as a Director on 23 February 2005.

Table 3 Directors' interests in shares

The beneficial interests of the Directors in the ordinary shares of the Company as at 30 November 2005 were as follows.

2005	if later*	30 November	1 December 2004 or as at date of appointment
R D Clegg		36,215	16,550
P A Forman		10,000	10,000
C E Davies		5,000	5,000
S J Hannam		60,878	40,878
J Kempster		32,217	13,590
C Littmoden*		5,000	Nil

Notes:

No changes to Directors' interests during the period 1 December 2005 to 24 February 2006 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 2005 or at 24 February 2006.

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

Awards held by Directors at 30 November 2005 under the 2003 LTIP were as follows.

Director	At 1 Dec 2004	Number of shares awarded		Award price	Vesting date
		Awarded in Sep 2005	At 30 Nov 2005		
J Kempster	259,135		259,135	53.64p	28 Mar 06 ¹
P A Forman	838,926		838,926	53.64p	28 Mar 06 ¹
P A Forman	Nil	483,221	483,221	111.75p	5 Sep 08

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, i.e. one third will vest on 28 March 2006, one third on 28 March 2007 and the final tranche on 28 March 2008.

Full details of the performance conditions are set out in 2(iii) above.

Table 5 Directors' Share Options

Share options held by Directors at 30 November 2005 under the Low & Bonar 1997 Sharesave Scheme were as follows.

Director	At 1 Dec 2004	Number of options			At 30 Nov 2005	Exercise price	Dates options are exercisable
		Granted during year	Exercised during year				
J Kempster	18,627	–	18,627	–	51.0p	1 Oct 2005 to 31 Mar 2006	

No options have been granted or exercised in the period from 1 December 2005 to 24 February 2006.

The market price of the shares at 30 November 2005 was 124 pence and the range during the year to 30 November 2005 was 98.5 pence to 136.5 pence.

Christopher E Davies

Chairman, Remuneration Committee
on behalf of the Board of Directors
24 February 2006