DIRECTORS' REPORT

Year to 31 March 2000

A perspective of the group is given on page 2 and the activities of the company's principal subsidiary, associated and joint venture companies are indicated on page 46. Analyses of turnover, operating profit and net assets are shown in note 3 on page 36.

Reviews of the operating and financial performance of the group for the year, of important events after the year end, and of likely future developments, are given on pages 6 to 14 and, together with the Chairman's statement on pages 4 and 5, form part of this report.

The report to shareholders on pages 26 to 30 is submitted by the management remuneration and development committee on behalf of the Board.

Dividends

The Board recommends a final dividend of 8.25p per share *(1999 7.6p)* making a total for the year of 12.5p *(1999 11.55p)*. If approved, the final dividend will be paid on 25 August 2000 to shareholders on the register on 28 July 2000; the interim dividend of 4.25p was paid on 21 January 2000.

Share and loan capital

Changes in the company's share capital which occurred during the year are shown in note 23 on page 42.

In accordance with the limited authority to make market purchases of up to 10% of the company's shares, granted to the directors at last year's annual general meeting, BPB purchased and cancelled a total of 21.6 million shares during the year at a total cost of £69.9 million (4.6% of the issued share capital at an average price of 321.6p per share excluding costs). No further shares have been purchased since the year end.

In March 2000 the company successfully launched a €400 million 6.5% bond due 2010. The issue has not only improved the debt maturity profile but has also diversified the group's sources of funding.

As at 17 May 2000, the company had been notified of the following interests of 3% or more in its issued ordinary share capital: Prudential Corporation 8.1%; Norwich Union 5.0%; Scudder Threadneedle Investment Managers 4.9%; Sprucegrove Investment Managers 4.1%; Lloyds TSB Group 4.0%; Standard Life 3.2%. In addition, Phillips & Drew Fund Management hold a non-beneficial interest of 7.0%.

Category of shareholder	Number of accounts	% of total accounts	% of ordinary share capital
Individuals	6,299	75.6	3.9
Banks and nominees	1,347	16.1	90.5
Companies	678	8.1	1.4
Insurance companies	5	0.1	3.4
Pension trusts	3	0.1	0.8
	8,332	100.0	100.0

The majority of holdings in the second category are of investment managers who act for a much larger number of investors.

Range of shareholdings	Number of accounts	% of total accounts	% of ordinary share capital
1–1,000	2,603	31.2	0.3
1,001–10,000	4,770	57.2	3.3
10,001–100,000	631	7.6	4.2
100,001–500,000	214	2.6	10.6
500,001–1,000,000	47	0.6	7.2
over 1,000,000	67	0.8	74.4
	8,332	100.0	100.0

The distribution of the 8,332 registered shareholdings in the company at the year end, by category and size, was as indicated in the tables shown above.

Annual general meeting

The company's annual general meeting will be held at 12 noon on 28 July 2000 at the Grosvenor House Hotel, Park Lane, London.

The normal business includes a proposal for the renewal of the directors' authority to make limited allotments of ordinary shares for cash. Shareholders will also be asked to consider, as special business, proposals to renew the directors' limited authority to make market purchases of the company's shares.

Details of these proposals are set out in a separate notice of meeting which accompanies this annual report and accounts.

The company will continue its policy of providing details of proxy voting at each AGM.

Directors and their interests

The directors of the company during the year were as shown on pages 20 and 21.

On 3 May 2000 Jean-Pierre Clavel, Mark Higson and Paul Withers were appointed as executive directors and Lady Balfour of Burleigh was appointed as a non-executive director.

The interests of the directors holding office at the year end in the company's ordinary shares as at 31 March 2000, and movements during the year in their share option and share matching plan interests, were as shown in the remuneration committee's report on pages 29 and 30; the weighted average prices of directors' share options, together with the pre-tax gain in value of exercisable options at 31 March 2000, are shown on page 30.

During the year no director had any interest in the company's 6.5% euro denominated bonds due 2010 or in any shares or debenture or loan stocks of the company's subsidiaries, or any material interest in any contract with the company or a subsidiary being a contract of significance in relation to the company's business.

Lady Balfour of Burleigh, Jean-Pierre Clavel, Richard Cousins, Mark Higson and Paul Withers, who all retire having been appointed since the last annual general meeting, together with Martin Clark and John Goodall, who both retire by rotation, offer themselves for re-election at the forthcoming annual general meeting.

Michael Dowdall (aged 70) will be retiring as a director at the conclusion of that meeting but will not seek re-election.

As explained in the service agreements paragraph on page 27, the retiring executive directors have contracts subject to termination by the company on giving varying periods of notice: Jean-Pierre Clavel six months, Mark Higson 18 months, and 24 months for Richard Cousins, John Goodall and Paul Withers. These periods will fall to 12 months on 31 March 2001 in respect of Richard Cousins, Mark Higson and Paul Withers. Lady Balfour and Martin Clark do not have service contracts.

Employment policies

The group continues to develop and maintain progressive policies for all aspects of employment, the overall objective being to optimise performance through recruitment and retention of effective, well-motivated people in every sector of its business. BPB seeks to realise the potential of every employee, recognising individual and team contribution and rewarding competitively relative to the group's success.

BPB is committed to providing equality of opportunity for all employees without discrimination and continues to be supportive of the employment and advancement of disabled persons in accordance with their abilities and aptitudes, provided that they can be employed in a safe working environment. If employees become disabled every effort is made to ensure their employment continues, with appropriate training where necessary.

A survey of senior managers from all sectors of the group has been undertaken to obtain their opinions and views of the business and the group's working environment. As a result of the survey, an action plan has been developed to strengthen BPB's people development programmes and similar exercises will be undertaken in future to measure progress.

The group attaches considerable importance to keeping its employees informed of matters affecting their jobs and the progress of the business. Although there are various communication channels, the primary one is between managers and their staff. A European Works Council, involving individuals from employees' representative bodies, provides an effective means of information exchange, consultation and dialogue at a European level. This forum complements existing national systems of employee representation in promoting good communication and mutual understanding. Representatives from Sweden and Denmark became members of the Council during the year, further increasing the positive contribution of the Council.

Employees in the UK have the opportunity to participate in the company's SAYE share option scheme over a three or five year period, and further details of these arrangements are given in note 23 on page 42. Approximately 73% of eligible employees (those with a minimum of one year's service) now participate in the scheme, each holding on average options over nearly 4,000 shares and saving in excess of £140 per month.

Health, safety and environment

The group recognises that the health, safety and security of its employees and good health, safety and environmental practices in its operating businesses are vital to its success. The group's policies and procedures in these areas, which incorporate monitoring and reporting arrangements, are designed to identify and control all relevant risks.

During the year, the Board established a health, safety and environment committee with responsibility for developing the group's policies and procedures and for promoting best practice and co-operation between group companies. To help in this process there are regular meetings of the group's health and safety managers and environmental managers to discuss issues, exchange ideas and look at ways of improving performance in this important area.

Health and safety

Although the group has recorded marked improvements in its safety performance, with the amount of time lost through injury falling by over 45% in the last five years, the group continues to strive to achieve its long term goal of no accidents, no harm to people and the highest practicable level of environmental care.

Regional health and safety programmes (incorporating internationally accepted principles of health and safety management and stretching targets to reduce the number of accidents) together with continued investment form the core elements of our drive to raise standards. The implementation and auditing of these programmes is the responsibility of regional management, and the results are reviewed and monitored as part of the group's internal control procedures.

During the year a more uniform risk assessment and accident reporting system was introduced throughout the group, enabling standards to be consistently monitored and improved, and group companies to be benchmarked against each other and external companies.

Environment

The group recognises society's right to expect industry to exercise the highest practicable level of environmental care. Through the implementation of an environmental policy which provides a clear framework for establishing effective management practices, the group aims to minimise any adverse effect its activities may have on the environment.

The group's activities are subject to numerous laws governing environmental protection, including regulations relating to environmental impact assessment, air and water quality, solid and hazardous waste handling and disposal, as well as occupational health and safety. As the degree of legislation varies from country to country, the Board believes that such issues are best addressed by individual operating companies who can give due regard to the local laws and regulations of each country in which they operate. A group environmental management committee provides a forum to exchange and develop best practice in meeting current and future responsibilities.

Continuous improvement in the cost effective minimisation of emissions and waste, consumption of raw materials and usage of energy are key elements of the group's environmental programme. To this end, extensive use is made of high-grade synthetic gypsum produced by power station desulphurisation processes which reduce levels of acid rain, and over 98% of the paperboard produced by the group is made from recovered paper fibre. In addition, the group continues to improve and deploy more energy-efficient technologies in both new and existing plants and recycles the vast majority of its factory waste, thus eliminating the need for extensive landfill sites.

The introduction of an energy tax in the UK is of major concern to the group. BPB, along with other manufacturing groups, is in discussions with trade associations and the UK government in order to reach a satisfactory compromise on this issue.

BPB considers that it is vital for operating companies to develop relationships with local communities by supporting local environmental projects and community service programmes. For

DIRECTORS' REPORT

example, in Windermere, Canada, over 60 hectares of land have been reclaimed as part of an on-going project to restore to the highest possible level all mining-disturbed areas after use. This has created an environment which is home to a variety of wildlife including deer, elk and moose.

Research and development

The group's research and development programme plays a key role in supporting BPB's activities. During the year, the group spent £3.4 million *(1999 £4.4 million)* on increasing manufacturing efficiency, improving product quality and introducing new products. A description of some aspects of the work currently being undertaken are included on pages 6 to 14.

BPB's acoustic, fire, systems-development and structural testing facilities are accredited to international standards through UKAS for assessment to BS, ISO, ASTM, NF and EN standards; such accreditation is also recognised by a variety of international standards authorities.

Charitable and political contributions

During the year donations for charitable purposes in the UK amounted to £176,000 *(1999 £104,000)*. The group continues to give significant assistance to a focused range of charities and again supported CRASH (the UK construction industry's initiative providing temporary shelters for the homeless during winter) with both finance and building materials and gave cash contributions in the UK to the Foyer Federation (supporting the nationwide construction of low-cost accommodation for young people, linked to skills training and job opportunities), Macmillan Cancer Relief (contributing to the provision and training of cancer-care nurses) and the British Heart Foundation (funding the research and treatment of heart disease).

Employees are encouraged to participate in charitable activities, especially in their local communities, and the group also offers the opportunity for donations to be made through give-as-you-earn. BPB fully supported the Children's Promise appeal that invited everyone in the UK to donate their final hour's pay of the millennium to help children's charities, and matched every donation made by group employees in the UK and Ireland.

No political contributions were made by the group in the UK during the year *(1999 nil)*.

Corporate governance

The Board is of the opinion that BPB's policy guidelines on corporate direction and control have ensured that the company has applied all of the principles of good governance contained in the Combined Code on corporate governance (previously under the auspices of the London Stock Exchange and now transferred to the Financial Services Authority) in the organisational structure it has adopted to conduct its business, the means by which directors are remunerated, the manner of contact with shareholders, and the procedures adhered to in its financial reporting, internal control and audit process. Other than in connection with the disclosures elsewhere in this report relating to executive director service contracts, and nomination of a senior independent director, the company has also complied in full throughout the financial year with the detailed best practice governance provisions set out in the Combined Code.

A statement of directors' responsibilities for the preparation of financial statements for the year to 31 March 2000 is given on page 31.

Internal control

The Combined Code introduced a requirement that directors should, at least annually, review the effectiveness of the group's system of internal controls and report to shareholders that they have done so. This extends the previous requirement to review internal financial controls to cover all controls including financial, operational and compliance controls and risk management. Formal guidance notes on the application of this requirement were published by the Turnbull Committee in September 1999.

The Board has overall responsibility for the effectiveness of the group's system of internal controls which are designed to identify, evaluate and control the risks associated with the group's achievement of its business objectives. The purpose of such a system is to provide reasonable, but not absolute, assurance against material misstatement or loss.

To identify and manage the group's key risks, the Board has established a framework requiring the consideration of regular reports from management which set out key performance and risk indicators, and require it to consider possible control issues identified through early warning mechanisms which are embedded within the operational units and reinforced by risk awareness training. This will enable the Board to report full compliance with the Turnbull Report for the accounting period ending on 31 March 2001. However, for this year, the Board has adopted the transitional approach for reporting on internal control as permitted by the Financial Services Authority and therefore continues to report upon internal financial controls on the same basis as in previous years. Further information on the company's system of internal controls is set out in the finance director's review on page 19.

Internal financial control

BPB's group-wide system of internal financial control, for which the directors have responsibility, provides a framework for internal decision making and for protecting the group's assets, and contains the following principal elements:

- A clearly defined organisation structure with established responsibilities.
- Group financial, operating and administrative policies and procedures which incorporate statements of required conduct.
- Continuous review of operating performance.
- Monitoring by the Board of a comprehensive reporting system, including monthly results, annual budgets, and periodic forecasts.
- Approval by the Board of all major investments, with proposals being subject to rigorous strategic and commercial examination; post-investment appraisals are carried out on all significant projects.
- Regular review by the Board of the activities and performance of key risk areas.
- Completion by business unit management of an annual finance compliance statement detailing controls in operation and listing any weaknesses.
- An audit committee for each region which meets at least annually.
- Regional risk profiling exercise, with a summary report being presented to the audit committee and/or Board identifying the key business risks.
- Assurance activities covering the key business risks summarised and reported annually to the audit committee.

The effectiveness of BPB's system of internal financial control for the year to 31 March 2000 has been reviewed and reported upon to the Board by the audit committee.

Going concern

After reviewing the group's financial resources and projected cash flows, the Board has a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing the financial statements.

The Board and its committees

Effective management and good stewardship are led by the Board of directors, which meets at least nine times each year and currently comprises seven executive directors, seven non-executive directors and the chairman. This balance ensures that no individual director or small group of directors dominates the decision making process.

Following the appointment of new directors to the Board an induction programme is arranged, including visits to the group's businesses and meetings with senior management as appropriate, to facilitate their understanding of the group.

Although all directors are equally accountable under the law for the proper stewardship of the company's affairs, the non-executive directors, who are all considered by the Board to be fully independent (including David Leonard, a previous group chief executive), fulfil a vital role in corporate accountability. They have a particular responsibility to examine critically the strategies proposed by the executive directors and play a leading role in the functioning of the main Board committees. The Board has considered the appointment of a senior independent director, but has concluded that if any person wishes to convey a concern, they should contact the group chairman or any other director.

There are procedures to provide directors with appropriate and timely information, and all directors have access to the advice of the group secretary; independent professional advice is also available to directors in appropriate circumstances at the company's expense.

New directors appointed by the Board must submit themselves for re-election by shareholders at the AGM following their appointment. Thereafter, in accordance with the Combined Code, the articles of association require that all directors stand for re-election at least every three years.

The Board as a whole determines group strategy, reviews trading performance, ensures adequate funding, examines major investments and monitors the performance of the executive, but has six principal committees to deal with specific aspects of the group's affairs.

The *group executive committee* currently consists of all the executive directors together with two senior group executives, meets monthly and is chaired by the group chief executive; its principal tasks are to ensure the proper management of the group's operations, to act as a forum for consultation and co-ordination, and to make recommendations to the Board.

The *audit committee* meets at least three times each year to review and discuss the intended publication of results, the efficacy and reliability of internal control, any changes to financial reporting requirements and matters arising from the annual group audit; it also keeps under review the overall financial relationship with, and independence and objectivity of, the external auditors. Its current members comprise the group chairman and three non-executive directors, one of whom acts as chairman of the committee.

The *management remuneration and development committee* meets at least four times a year and currently consists of the group chairman and three non-executive directors, one of whom acts as chairman of the committee. Details of the committee's main functions, and its current remuneration policies for parent company directors and senior executives, are given in the remuneration committee's report commencing on page 26.

The *nomination committee* meets at least twice every year to review the Board structure, size and composition, and to supervise succession plans for the posts of group chairman and group chief executive. When appropriate, the committee nominates for consideration by the Board candidates for parent company directorship. Current members comprise the group chairman and three non-executive directors, one of whom acts as chairman of the committee.

The new *health, safety and environment committee* will meet at least twice each year and consists of the chairman and two non-executive directors, one of whom acts as chairman of the committee; its principal tasks are to establish a culture of safe working practices and care and sensitivity towards the environment.

The *charities committee* meets at least three times each year to review the group's charitable donations policy and to authorise contributions on behalf of the company. Membership consists of the group chairman, one non-executive director who acts as committee chairman, and one group executive.

Current chairmanships and memberships of all these committees are shown on page 20. In addition, the group secretary has a specific responsibility to the group as a whole for its sound governance and for the guidance of the Board in the responsible and effective execution of its tasks.

Shareholder communications and voting pattern

The Board recognises the importance of good communication with shareholders. In addition to the interim and annual reports which are sent to all shareholders, there is a regular dialogue with individual institutional shareholders, who also from time to time visit the group's operations. There are also general stockbroker/institutional analyst presentations each half year, trading update announcements each spring and autumn, and there is an opportunity for individual shareholders to question the chairman at the AGM. The company responds as necessary to letters from individual shareholders on a wide range of issues.

The Board noted in 1999 the continuance of the trend of a rising level of voting participation at BPB annual general meetings, with the total number of shares voted by proxy (as a proportion of the company's issued share capital) increasing from 60% to almost 70%.

Auditors

A resolution proposing the re-appointment of Ernst & Young as auditors to the company will be put to the annual general meeting on 28 July 2000.

On behalf of the Board
R M Heard
Director and group secretary
1 June 2000

REMUNERATION COMMITTEE'S REPORT

The Committee and its remit

BPB's *management remuneration and development committee* is primarily responsible for determining and recommending, to the Board, the framework for executive remuneration and determining, on behalf of the Board and shareholders, the entire remuneration package of the executive directors. It also monitors salaries paid to other senior executives, decides on the grant of senior executive share option and share matching plan entitlements and supervises management development and succession plans; when appropriate, the Committee also recommends candidates for executive directorship for consideration by the Board nomination committee.

The remuneration of the chairman and the fees paid to non-executive directors are decided in line with market levels by the Board, but with the chairman and non-executive directors abstaining as appropriate.

Committee members are Michael Beckett (chairman), Michael Dowdall (to 31 May 2000), Franz Leibenfrost (from 31 May 2000) and Sir John Whitehead (all of whom are independent non-executive directors) together with Allan Gormly (group chairman); their biographies are shown on pages 20 and 21. They have no personal financial interest other than as shareholders in the matters to be decided by the Committee, no potential conflicts of interest arising from cross-directorships and no day-to-day involvement in running the business. The group secretary acts as secretary to the Committee and the chief executive and director of group human resources normally attend meetings, at the invitation of the Committee, to provide information and advice. The Committee also has access to professional advice from independent remuneration consultants.

Compliance

The constitution and operation of the Committee complied throughout the year with the provisions of the Combined Code on corporate governance annexed to the listing rules of the Financial Services Authority, which includes a code of best practice.

Ernst & Young have confirmed that the scope of their report on the accounts covers the disclosures contained in this report that are specified for audit by the Financial Services Authority.

Decisions and recommendations of the Committee are reported to the Board, and this report is submitted to shareholders by the Committee on behalf of the Board to describe the company's arrangements for directors' remuneration in the context of the Combined Code and the provisions of the code of best practice.

Remuneration policy

The Committee seeks to ensure that the company's remuneration policies and practices facilitate the employment and motivation of high calibre personnel with the appropriate skills to implement the group's business objectives, while also relating reward to performance and aligning the interests of directors and senior executives with those of shareholders. It aims to provide a balanced package which includes base pay and benefits in kind at around the average market level for comparable industrial companies, an annual performance-related bonus opportunity linked to challenging short-term targets, a long-term incentive in the form of a share option scheme and a share matching plan which links a shorter-term commitment by key managers to the longer-term involvement inherent in share ownership.

To assist in developing these policies the Committee undertakes annual assessments of the relevant UK senior executive remuneration market to ensure that directors and other executives are competitively and fairly rewarded for their contribution to the company's overall performance and for enhancing value to shareholders. These assessments include targeted surveys of remuneration paid by companies in similar industries as well as by companies of similar size.

The Committee believes that share options remain the most suitable form of primary long-term incentive for the company; their relative simplicity remains attractive bearing in mind BPB's growing international spread of managers and, along with the UK SAYE share option schemes, they have in the past generally proved to be successful motivators in aligning the interests of employees and shareholders and in enabling employees to share in the long-term success of the group, without delivering excessive benefits.

Apart from the share matching plan referred to below, which addresses the interaction between long-term incentives and annual bonuses, there is no other form of long-term incentive scheme.

Elements of remuneration

Executive directors are entitled to:

- *base salary and benefits in kind* which are generally reviewed with effect from 1 April each year. Individual salaries and any increases are dependent upon a number of factors: the size and nature of the job, individual performance and experience, comparator group relativities, BPB's performance and the policies adopted for other groups of staff within the company. Benefits include a company car, pension, health insurance and, where appropriate, relocation assistance, all in line with entitlements provided for executives in similar positions in comparable industrial companies;

- *annual bonus opportunity* based upon specific and challenging targets which are objective and measurable, agreed at the start of each financial year and weighted to reflect each participant's role within the group; the Committee may, in exceptional circumstances, also award discretionary bonuses. Payments for regional performance are related to relevant operational results (typically safety performance, operating profit and cash flow), with awards made in return for achievement above target. The corporate component (usually the largest single element of bonus) is geared to group earnings per share, with bonuses only being generated above a demanding threshold level. An element of each director's maximum entitlement is also geared towards achievement of specific personal and cost reduction targets. Apart from this, the bonuses of Bob Heard, Peter Sydney-Smith and David Leonard (until his appointment as a non-executive director on 1 April 2000) are related solely to the earnings per share measure; those of John Goodall and Richard Cousins (until his appointment as chief executive on 1 April 2000) also include a regional/company element.

  Bonuses, which are all payable in cash, are disclosed for the year in which they are earned although they are not due and payable until June in the following year, and they are not pensionable. Maximum performance-related bonus targets for executive directors normally range from 40% to 50% of base salary, with generally lower limits being applicable to other senior executives. Bonuses earned by executive directors in 1999/00 included a maximum payout in respect of the earnings per share and cost saving measures and, excluding an additional discretionary bonus for David Leonard, averaged 41.2% (*1998/99 27.7%*);

- *share matching plan allocations* awarded under a BPB plan whereby each year eligible directors and selected senior executives are invited to invest up to half of their actual cash bonus (net of deductions) in the company's shares. In return, participants are granted a matching award over a number of shares equal in value to the amount of bonus invested (before deductions). Provided the executive remains in employment, the matching awards are normally exercisable after three years, but only if the shares purchased with the bonus have not been sold; any such exercise will give rise to an income tax liability based upon their value at that time.

In this way each executive is asked to commit part of his earned performance-tested bonus for a three year period in return for additional shares in the group. Vesting of the matching award will (unless it amounts to less than 20% of base salary when granted) be subject to a performance condition to be set by the Committee; as a result of the adoption of a new measure during the year this will now require BPB's total shareholder return to exceed the median return for a list of approximately 20 major UK and international building materials companies over a relevant three year period (TSR previously had to exceed the median for FTSE 100 Index constituents);

- *share option allocations* under the company's SAYE and senior executive schemes. BPB policy is generally to grant options under the senior executive scheme in a series of tranches over a number of years up to a maximum of four times annual earnings, although options in replacement of those already exercised may be granted subject to an assessment of performance in accordance with the guidelines of institutional investors. Executive options granted since 1995 may only be exercised if the growth in BPB's earnings per share exceeds the growth in the UK Retail Prices Index by at least six per cent over any three year period following each relevant date of grant; replacement options are not granted unless this condition is met. Executive options granted prior to 1995 did not contain any performance condition.

Executive directors are eligible to participate in the company's SAYE scheme, which is open to all UK employees with at least one year's service. It permits the grant of options to acquire ordinary shares in the company (at a discount of up to 20% of the share price at the time of invitation) and is linked to a bank save-as-you-earn contract.

Other than under the SAYE scheme, options are not granted by the company at a discount to the market price at the date of grant;

- *pension provision* (except in the case of Jean-Pierre Clavel) of up to two-thirds of their final year's base salary at the normal retirement age of 60 (less than two-thirds where service to age 60 is below 20 years) under the BPB senior executive pension scheme, a tax approved, defined benefit, fully-funded scheme, subject to an independent trust under which contributions are payable by the company. Directors may retire and draw their pensions earlier than age 60, in which case the pensions payable will be reduced by approximately 4% for each year early. On death before retirement a lump sum of four times the annual rate of base salary is provided together with a spouse's/financial dependants' pension of two-thirds of the director's prospective pension at age 60; a pension of two-thirds of the director's pre-commutation pension is payable on death after retirement. Child allowances of up to one-third of the director's prospective or actual pension at age 60 are payable on death both before and after retirement. Once in payment, pensions are guaranteed to increase in line with inflation up to a maximum of 5% per annum (or higher if the Board agrees).

Where the Inland Revenue cap on pensionable earnings for joiners after 1989 restricts the above entitlements, an additional unfunded pension is made available to compensate for the shortfall. The accumulated provision at 31 March 2000 is £4,821,000 (*1999 £3,607,000*) including provision in respect of two (*1999 two*) former directors together with David Leonard; payments will be disclosed as pensions paid to past directors when they are made. During the year, £149,934 was paid in respect of two former directors *(1999 £23,000 for one former director)*.

Service agreements

In 1999 the Committee decided that, notwithstanding the possible necessity to offer a longer initial period immediately following appointment, new executive directors will be employed on a rolling one year contract. The service agreements of Richard Cousins, Paul Withers and Mark Higson have all been structured on this basis and generally start by reflecting the period of notice to which they were entitled prior to their appointment to the Board. As a result, the first two have agreements terminable on two years' notice, with Mark Higson's agreement being terminable on 18 months' notice, until 31 March 2001 when all three revert to a 12 month entitlement and remain on a rolling 12 month basis thereafter. Each director is required to give not less than six months' notice of termination at all times.

As Jean-Pierre Clavel's primary operational duties, pension rights and tax residency lie in or are based on his location in France, he has retained his previous French-based contract of employment which entitles him to receive six months' notice from the company plus 12 months' severance entitlement under French law determined by his length of service. Under French law an additional payment would also be required if the company wished to enforce a non-competition provision in his contract following termination. He also has a collateral employment agreement in respect of his appointment as a parent company director which is co-terminous with his French agreement but also capable of termination in its own right on six months' notice. He is required to give not less than six months' notice of termination under both agreements.

John Goodall, Bob Heard and Peter Sydney-Smith have two-year rolling contracts, with nine months' notice of termination required from each of them. The company notice periods have previously been reduced from three to two years by agreement with each of the directors concerned without compensation.

The Committee will continue to monitor the appropriateness of the above policies in the light of market practice to ensure that they allow the company to attract and retain executive directors of the right calibre.

The Committee has recently reviewed again its policy of not providing explicitly for compensation in the event of early termination and concluded that in such circumstances it is better to have regard to the

REMUNERATION COMMITTEE'S REPORT

Directors' emoluments	Salary/ fees £000	Bonus £000	Other emoluments £000	2000 Total £000	1999 Total £000	2000 Pensions £000	1999 Pensions £000
Chairman							
A G Gormly	130	–	–	**130**	122	**–**	–
Chief executive							
R J Cousins* (from 1.4.00)	33	8	6	**47**	–	**7**	–
D C Leonard (to 31.3.00)	330	237	19	**586**	353	**–**	6
Executive directors							
J S Goodall	212	75	10	**297**	360	**63**	57
R M Heard	133	52	15	**200**	174	**40**	36
P E Sydney-Smith	200	77	13	**290**	244	**60**	52
Non-executive directors							
M E Beckett	30	–	–	**30**	29	**–**	–
M Clark	30	–	–	**30**	29	**–**	–
M Dowdall	28	–	–	**28**	26	**–**	–
F J Leibenfrost	25	–	–	**25**	4	**–**	–
Sir John Whitehead	28	–	–	**28**	28	**–**	–
Former directors	36	–	–	**36**	327	**–**	20
Total emoluments	1,215	449	63	**1,727**	1,696	**170**	171
1999 analysis	1,302	208	186				

*appointed a director on 1 January 2000

specific circumstances of each case, including where appropriate mitigation of payment of compensation.

All director agreements remain available for inspection during normal business hours at the company's registered office.

Policy on external appointments

Although there are none at present, the Committee believes that the company can benefit from executive directors holding one approved non-group directorship, offering directors the opportunity to broaden their experience and knowledge. Company policy is to allow directors to retain fees paid from any such appointment.

Non-executive directors

Non-executive directors are normally appointed for an initial period of three years; re-appointment is not automatic, they do not have service contracts with the company and they receive no benefits other than their fees, the rate of which is £25,000 per annum. No additional fees are paid to reflect time spent working on Board committees.

The group chairman receives remuneration at the rate of £115,000 per annum in addition to his non-executive director fees; this rate of remuneration had remained unchanged at £100,000 per annum since August 1996 until it was increased on 1 December 1999.

The chairmen of this Committee, the audit committee, the nomination committee, the health, safety and environment committee and the charities committee each receive additional fees; these are payable at the rate of £5,000 per annum for the first two committees and £2,500 per annum for the other three, the higher rates for the former recognising the additional burdens now placed on the respective chairmen. Payment for chairmanship of the new health, safety and environment committee commences in the year beginning 1 April 2000.

Emoluments during the year

The total emoluments of the directors for the year to 31 March 2000 were as shown above. Jean-Pierre Clavel, Mark Higson, Paul Withers and Lady Balfour of Burleigh were all appointed to the Board after the year end; details of their emoluments are therefore excluded from the above.

Richard Cousins was appointed as an additional director on 1 January 2000 with an entitlement to receive a maximum bonus of 30% of base salary in respect of his service from that date to 31 March 2000; he will also receive relocation expenses following his return to the UK in March 2000. His terms and conditions of employment were renegotiated on his appointment as chief executive on 1 April 2000, and these will be disclosed in full in next year's accounts.

The highest paid director was David Leonard, whose emoluments include a discretionary bonus payment of £75,000 in respect of his exceptional contribution to the year's strong performance (in 1999 John Goodall was the highest paid director by virtue of payments made in respect of relocation expenses). The emoluments of the two former directors who held office for part of 1998/99 include those of Jean-Pierre Cuny, a former BPB chief executive, who continues to assist the group in dealing with matters arising out of the European Commission investigation referred to in note 21 on

Accrued pension benefits for executive directors in office at 31 March 2000	Age at 31 March 2000	Amount of increase in accrued pension for the year to 31 March 2000 in excess of a 1.1% increase for inflation		Total accrued pension as at 31 March 2000
		Funded £	Unfunded £	Per annum £
R J Cousins (appointed 1.1.00)	41	692	4,108	**24,241**
J S Goodall	55	12,110	–	**120,000**
R M Heard	47	6,100	–	**60,463**
D C Leonard	61	8,586	12,227	**159,352**
P E Sydney-Smith	47	11,600	–	**84,105**

page 40. He is being paid a retainer of £28,000 for a period of one year from 1 February 2000 together with a fee of £1,700 for each full day spent in this capacity (he received £25,000 and £1,500 per day respectively in the previous 12 month period). Details of the emoluments paid to him in 1999/00 are disclosed in the table on page 28.

Included in debtors (note 16 on page 39) is an amount of £9,403 (*1999 £10,328*) in respect of an interest-free housing loan granted to Bob Heard prior to his appointment as a director. This loan is made in relation to his main residence, is fully secured on such property and is repayable in monthly instalments until April 2008; the balance at 1 April 1999 represented the maximum amount outstanding during the year to 31 March 2000.

Pension benefits during the year

The pension benefits disclosed for executive directors in the table set out on page 28 represent the contributions paid by the company on the basis of the full service cost, as advised by actuaries, of 29.1% of salary for the period up to 29 February 2000 and (as a result of the latest actuarial valuation of the scheme) 38% of salary from 1 March 2000 for the funded entitlements explained in the notes on pension provision set out on page 27. Those notes, together with the table above showing the increase in accrued pension benefits during the year, provide the details of directors' pension entitlements which are required to comply in full with the disclosure requirements of the listing rules of the Financial Services Authority. The total accrued pension as at 31 March 1999 in respect of the highest paid director in 1998/99 (John Goodall) was £106,700.

Ordinary shares and share matching awards

The interests of the directors who held office on 31 March 2000 in the company's ordinary shares as at that date and 1 April 1999 (or their date of appointment, if later), together with movements in the matched shares awarded under the share matching plan, were as shown in the table below.

No changes in those interests occurred in the period between 1 April 2000 and 17 May 2000.

All of those interests were held beneficially, except 25,000 shares held by Allan Gormly under a trust fund. During the year none of the directors had any interest in the company's 6.5% euro denominated bonds due 2010.

Executive directors are entitled to participate in the company's share matching plan, under which they purchased for cash during the year a total of 9,423 shares in their own names at 388p per share. Directors were then granted matched awards for a

Directors' interests in ordinary shares and share matching awards	1 April 1999*		Share matching award movements			31 March 2000	
	Shares	Share matching awards	Granted	Exercised	Lapsed	Share matching awards	Shares
M E Beckett	11,000	–	–	–	–	–	**20,000**
M Clark	5,000	–	–	–	–	–	**5,000**
R J Cousins (appointed 1.1.00)	6,953	2,840	–	–	–	**2,840**	**8,355**
M Dowdall	10,000	–	–	–	–	–	**10,000**
J S Goodall	30,028	8,441	4,465	–	–	**12,906**	**35,768**
A G Gormly	58,319	–	–	–	–	–	**58,553**
R M Heard	8,508	10,090	4,655	–	–	**14,745**	**11,281**
F J Leibenfrost	–	–	–	–	–	–	**5,000**
D C Leonard	46,373	3,976	–	–	–	**3,976**	**56,373**
P E Sydney-Smith	51,182	14,427	6,696	–	–	**21,123**	**55,172**
Sir John Whitehead	5,000	–	–	–	–	–	**5,000**
	232,363	39,774	15,816	–	–	**55,590**	**270,502**

* or date of appointment, if later

REMUNERATION COMMITTEE'S REPORT

Directors' interests in share options	1 April 1999*	Option movements: Granted	Exercised	Lapsed	31 March 2000
R J Cousins	108,863	5,459	1,402	–	**112,920**
J S Goodall	253,945	3,000	54,380	–	**202,565**
R M Heard	161,465	10,100	–	–	**171,565**
D C Leonard	163,200	–	19,000	–	**144,200**
P E Sydney-Smith	261,168	20,300	–	–	**281,468**
	948,641	38,859	74,782	–	**912,718**

*or date of appointment, if later

nil consideration over a total of 15,816 shares which are held in the name of the BPB Employee Trust and which are normally accessible only from 12 July 2002.

At the year end directors held matched shares awarded under the share matching plan over a total of 55,590 shares (*1999 39,774*) which are normally exercisable between the third and seventh anniversaries of the date of grant. The executive directors, as potential beneficiaries of the BPB Employee Trust, are also deemed to have an interest in all 111,606 BPB ordinary shares that were held by the Trust at 31 March 2000 (*1999 107,607*); similarly, they are also deemed to have an interest in all 2,181,021 ordinary shares held by the BPB QUEST (see note 23 on page 42) at 31 March 2000 (*1999 nil*).

Share options

Executive directors are entitled to participate in the company's SAYE and senior executive share option schemes, and the interests of those who held office on 31 March 2000 are set out in the table above; details of the total number of options granted and shares outstanding under these schemes are given in note 23 on page 42.

During the year, executive share options over 33,400 shares at an option price of 395p per share were granted to the executive directors as follows: John Goodall an option over 3,000 shares, Bob Heard an option over 10,100 shares and Peter Sydney-Smith an option over 20,300 shares. In addition, an SAYE share option over 5,459 shares at an option exercise price of 272p was granted to Richard Cousins.

Pre-tax gains in value on the exercise of options over shares during the year were made as follows: Richard Cousins made a pre-tax gain of £224 on the exercise of options over shares at a market price of 294p on the date of exercise; John Goodall made pre-tax gains of £48,248 and £5,421 at a market price of 403.25p and 400p respectively; and David Leonard made a pre-tax gain of £31,920 at a market price of 382p. The highest paid director in 1998/99 made a pre-tax gain of £8,918 on the exercise of options over shares in that year.

At the year end directors held options over a total of 27,418 shares under the SAYE scheme (normally exercisable for six months after the third or fifth anniversary of the commencement of the related savings contract) and 885,300 shares under the UK senior executive scheme (normally exercisable between the third and tenth anniversaries of each relevant date of grant apart from options granted in 1995, 1996 and 1997 which are normally exercisable between the third and seventh such anniversary).

The weighted average prices of directors' share options, together with the pre-tax gain in value of those which could have been exercised to produce a surplus at the year end share price of 313p, were as shown below.

The market value of the company's shares during the year was in the range 247p to 415p per share.

The register of directors' interests, which is open to inspection, contains full details of directors' shareholdings, share options and share matching plan awards.

Directors' share options outstanding	Weighted average option prices (in pence per share) at 31 March 2000: Granted at prices of 313p or above – Number	Price	Granted at prices below 313p: Exercisable – Number	Price	Not yet exercisable – Number	Price	Pre-tax gain in value of exercisable options at 31 March 2000 £000
R J Cousins	98,700	350.7	8,000	300	6,220	272	**1**
J S Goodall	196,900	328.8	–	–	5,665	171	**–**
R M Heard	127,400	326.8	38,500	300	5,665	171	**5**
D C Leonard	101,900	313	42,300	300	–	–	**5**
P E Sydney-Smith	136,900	334.1	134,700	254.4	9,868	171	**79**

RESPONSIBILITIES OF THE DIRECTORS

for the preparation of financial statements

The directors are required by company law to prepare financial statements which give a true and fair view of the state of affairs of the company and the group as at the end of each financial year and of the profit or loss of the group for that period. They are also responsible for maintaining proper accounting records, for safeguarding the assets of the group and for preventing and detecting fraud and other irregularities.

In preparing these financial statements on a going concern basis, the directors have ensured that appropriate accounting policies have been used and been applied consistently, that applicable accounting standards have been followed and that reasonable and prudent judgements have been made.

AUDITORS' REPORT

to the members of BPB plc

We have audited the financial statements on pages 32 to 43 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 35.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report. As described elsewhere on this page, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the listing rules of the Financial Services Authority and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if the information specified by law or the listing rules regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the corporate governance statement on page 24 reflects the group's compliance with the seven provisions of the Combined Code specified for our review by the listing rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of either the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 March 2000 and of the group's profit for the year to that date and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young
Registered Auditor
London 1 June 2000