

## Directors' Remuneration Report

### INTRODUCTION

The Directors present their remuneration report for the year ended 31 December 2009.

The Report contains separate sections for unaudited and audited information; the external auditor has reported on the audited information within their report to Members on page 68.

The Company will propose a resolution to approve this Report at the AGM.

### UNAUDITED INFORMATION

#### Remuneration Committee

The Company has established a Remuneration Committee, constituted in accordance with the recommendations of the Combined Code. The members of the Committee are Robert Deutsch (Chairman) and Richard Scholes, who are independent NEDs. Christopher Forbes served as Chairman to the Remuneration Committee until his resignation on 30 June 2009. The Committee met on eight occasions during the year and attendance by members was as follows:

Committee member	Number of Committee meetings attended (total 8)	
R V Deutsch (appointed 26 August 2009)	2	(maximum possible 2)
C D Forbes (resigned 30 June 2009)	5	(maximum possible 5)
R T Scholes	8	(maximum possible 8)

None of the members of the Committee has any personal financial interest in the Company (other than as shareholders), conflicts of interest arising from cross-directorships or day-to-day involvement in running the business. The Committee makes recommendations to the Board. No Executive Director plays a part in any discussion about his own remuneration.

In determining the Directors' remuneration for the year, the Committee consulted the Chief Executive Officer about its proposals.

#### Remuneration policy

The Group designs executive remuneration packages to attract, motivate and retain directors and employees of the high calibre needed to maintain the Group's position as a market leader and to reward them for enhancing value to shareholders. The Committee undertakes the performance measurement of the Executive Directors and the determination of their annual remuneration package. The Executive Directors of the Board determine the remuneration of the Chairman and NEDs within limits set out in the Articles of Association.

The Company operates in a market where earnings can be cyclical and extremely volatile depending on the mixture of premium rates, claims made and investment returns. Consequently, remuneration policy is designed so that a substantial proportion of the remuneration of the Executive Directors is performance related and therefore very variable.

The remuneration package for executive directors and senior management can be divided between fixed and variable elements:

##### 1. Fixed elements:

- Basic annual salary and benefits
- Pension arrangements

##### Basic annual salary and benefits

The Committee determines an Executive Director's basic salary prior to the beginning of each year or when an individual changes position or responsibility. In deciding appropriate levels, the Committee considers the Group as a whole and relies on research that gives up-to-date information on a comparator group of companies, comprising ten companies within the sector.

Executive Directors are entitled to accept appointments outside the Company with the Chairman's permission and providing that they account for all fees, from all such appointments, to the Company.

For 2009, cash benefits (for example, a car allowance) were added to basic salary, as they were for all employees, in order to simplify remuneration structure.

Executive Directors are also eligible to participate in both the SAYE and the SIP Schemes, which are open to all employees.

##### Pension arrangements

Robert Stuchbery and Bruce Bartell are members of the defined benefits section of the Chaucer Pension Scheme. Their dependants are eligible for pensions of 50 per cent of the member's prospective entitlement and, in the event of death in service, the payment of a lump sum of four times basic salary. The pension arrangements provide for a pension on retirement of 2/3 capped salary after 30 years' eligible service, except that their entitlement was uncapped until 6 April 2006. All members of the defined benefit section contribute 4% of basic salary up to the salary cap for the time being.

Ken Curtis is a member of the defined contribution section of the Chaucer Pension Scheme. Scheme members contribute 3% and in respect of Mr Curtis, the employer contributes (presently) 14% of total salary; employer contributions are banded by age between 8% and 16%.

Executive Directors' pension entitlements are disclosed on page 64. No other payments to directors are pensionable.

There are no unfunded pension promises or similar arrangements for directors.

## 2. Variable elements:

- Annual Bonus Scheme
- Deferred Share Bonus Plan (DSBP) and other Long Term Incentive Plans

The Annual Bonus Scheme and DSBP are designed to act closely together to:

- Incentivise senior executives over both the short and long term;
- Act as a significant retention mechanism, through the deferral for three years of any bonus in excess of 150% of salary and at least 25% of bonus below that amount;
- Provide material alignment between director (and senior executive) and shareholder interests as the whole value of deferred bonus is converted into Chaucer shares. Alignment is further enhanced through the award of dividend shares and matching shares dependent on performance criteria; and
- Reduce the amplitude of individual earnings variability. The Annual Bonus Scheme provides for 15% of the bonus pool created in any year to be deferred, thereby reducing annual bonuses in very good years and providing a pool of cash to augment annual bonuses in poor years. This process also supports retention.

Both schemes are described in detail below.

### Annual Bonus Scheme

This Scheme operates by creating a 'bonus pool', based on Company operating profit relative to return on net asset value (NAV), which is then divided into two sections, one to be distributed amongst some 70 senior executives and one amongst all other employees. Since 2006, the Annual Bonus Scheme has operated in conjunction with the DSBP (see below).

Annual bonuses are calculated in accordance with the following paragraphs.

No value accrues to the bonus pool until operating profit exceeds a 9% return (pre tax) on NAV; thereafter, the Scheme allocates profit into the pool in accordance with agreed return bands. 15% of the bonus pool is deferred to facilitate bonus payments in years of poorer performance. The proportion of profit allocation and the amount of the pool allocated to senior executives increases with increased returns, except for the highest return band where the proportion of profit allocation falls; that is because such very high results are consequent to the correlation of an absence of significant insurance losses and very favourable investment conditions, neither of which are materially management driven. The pattern of profit allocation operates to create an expectation of lower bonus payments to individuals in years of poor or average performance and higher ones in years of exceptional performance. There is no bonus ceiling compared to base salary. The intention is to drive performance and therefore shareholder value.

The mathematical operation of the Scheme determines half of the amount of an individual's bonus based on profit and personal performance determines the other half. Bonuses for all the Executive Directors are determined by the Remuneration Committee and for other senior executives by the Executive Directors.

Payment of the cash element of executive bonuses is split between April and the following January to provide a retention mechanism. The operation of the DSBP further enhances the retention.

The 2008 results produced a loss and therefore no contribution into the bonus pool. The Remuneration Committee, at its meeting on 4 March 2009, approved a release of £2.3m from the deferred bonus pool for distribution amongst senior executives but excluding the Executive Directors. That distribution was in accordance with the stated objective of reducing the amplitude of individuals' earnings variability.

### Deferred Share Bonus Plan (DSBP)

Shareholders approved the DSBP at the AGM held on 25 May 2006. Broadly, it aims to provide both an incentive over the long term and a retention mechanism. Watson Wyatt provided assistance in the design of the Scheme, which operates in conjunction with the Annual Bonus Scheme. Under the DSBP, there is a deferral of a proportion of the Annual Bonus for a period of three years. Certain elements of the deferred proportion are eligible for an award of Matching Shares, subject to the attainment of defined performance criteria. The DSBP facilitates the build up by senior executives of holdings in Chaucer shares, which are significant relative to base salary, thereby creating very strong alignment with shareholder interests and a significant retention incentive, as demonstrated by the tables of directors' interests.

The DSBP operates as follows. First, the Scheme compulsorily defers any bonus in excess of 150% of salary into Chaucer shares. These deferred shares, which are not eligible for Matching Shares, vest after three years unless the recipient leaves the Group during this period, in which case, subject to good leaver provisions and Remuneration Committee discretion, the recipient forfeits the shares. Of the bonus of up to 150% of salary, the recipient must compulsorily defer 25% and may elect to defer up to another 25%, into Chaucer shares. All of these shares are eligible for Matching Shares, which are awarded at the end of the 3-year retention period, depending on performance against two performance criteria. All deferred shares (but not Matching Shares) are eligible for dividend shares, which also vest at the end of the retention period.

Matching Shares may be awarded up to a maximum ratio to eligible deferred shares of 2 for 1. The number of Matching Shares for any award divides equally between two performance criteria measured over three years.

## Directors' Remuneration Report

### 1. Total Shareholder Return (TSR) performance criteria

Degree of Chaucer's TSR out-performance against index comprising basket of comparators weighted for market capitalisation at the start of the period	Number of Matching Shares awarded for each deferred share subject to this TSR test
Below 15% above the index	No match
From 15% above but less than 45% above the index	0.5 – 2 : 1 (match is on a straight line basis between these figures)
Equal to or above 45% above the index	2 : 1

The Scheme measures TSR from the date of award to the third anniversary of the date of award. The Company chose this performance measure since it provides a comparison of Chaucer's performance relative to an index of a peer group of listed specialist insurers. This comprised the following companies for the 2009 awards: Advent Capital (Holdings) PLC, Amlin plc, Beazley Group plc, Brit Insurance Holdings plc, Catlin Group Limited, Hardy Underwriting Group plc, Heritage Underwriting Agency plc, Highway Insurance Holdings Plc, Hiscox Limited, Omega Insurance Holdings Limited and Novae Group plc.

An external adviser with experience in such calculations will be engaged to assess actual TSR against the index.

### 2. Net Asset Value (NAV) performance criteria

The increase in Chaucer's NAV per share compared with the Retail Price Index (RPI) over three years	Number of Matching Shares awarded for each deferred share subject to this NAV test
Less than RPI +15%	No match
From RPI +15% to RPI +45%	0.5 – 2 : 1 (match is on a straight line basis between these figures)
In excess of RPI +45%	2 : 1

The Scheme measures NAV per share from the end of the accounting period prior to the award of the grant to the end of the accounting period before the award is due to vest. The Company chose this performance measure as it indicates the success of management in growing the assets of the Company. It is expected that this performance criteria will be reviewed by the external auditor.

The Scheme does not allow retesting. Leavers lose all rights to deferred shares, except if they fall under the good leaver provisions or the Remuneration Committee exercises its discretion.

On a takeover or winding-up of the Company, all Deferred Bonus Shares and Dividend Awards will vest in full. All Matching Shares will vest to an extent (if any) and at such time as the Remuneration Committee determines, provided that the Remuneration Committee takes into account the extent that the performance conditions imposed have been satisfied at that date and the foreshortened performance period and the number of Matching Shares which shall vest shall be reduced on a time-apportioned basis.

#### EXECUTIVE SHARE OPTION SCHEME (ESOS)

Following the adoption of the DSBP, the Committee has made no further awards under the ESOS, although unexercised share options remain.

#### Chaucer Holdings PLC Unapproved Share Option Scheme

Share options currently outstanding and granted between the start of the Scheme in July 1998 and May 2003, are subject to a performance target as described under the Chaucer Holdings PLC Approved Share Option Scheme below.

Share options granted under this Scheme after May 2003 are subject to revised performance targets. For example, the first £20,000 of share options are only exercisable if the TSR (that is to say, share price growth plus reinvested dividends) on Chaucer shares exceeds that of the FTSE All Share Index by more than 2% per annum over the three years from grant. If the TSR misses this target, share options are only exercisable if the TSR from the grant of the option exceeds the RPI by more than 3% over the same or a longer period. These test levels increase by 1% for the next £20,000 of share options granted to an individual and by a further 1% for any additional share options.

Introduction of these revised targets reflected the volatility of the insurance market, so that the benefits available under the Scheme should not be too easily achieved in buoyant market conditions and not impossible to attain during quieter periods of the market cycle.

#### Chaucer Holdings PLC Approved Share Option Scheme

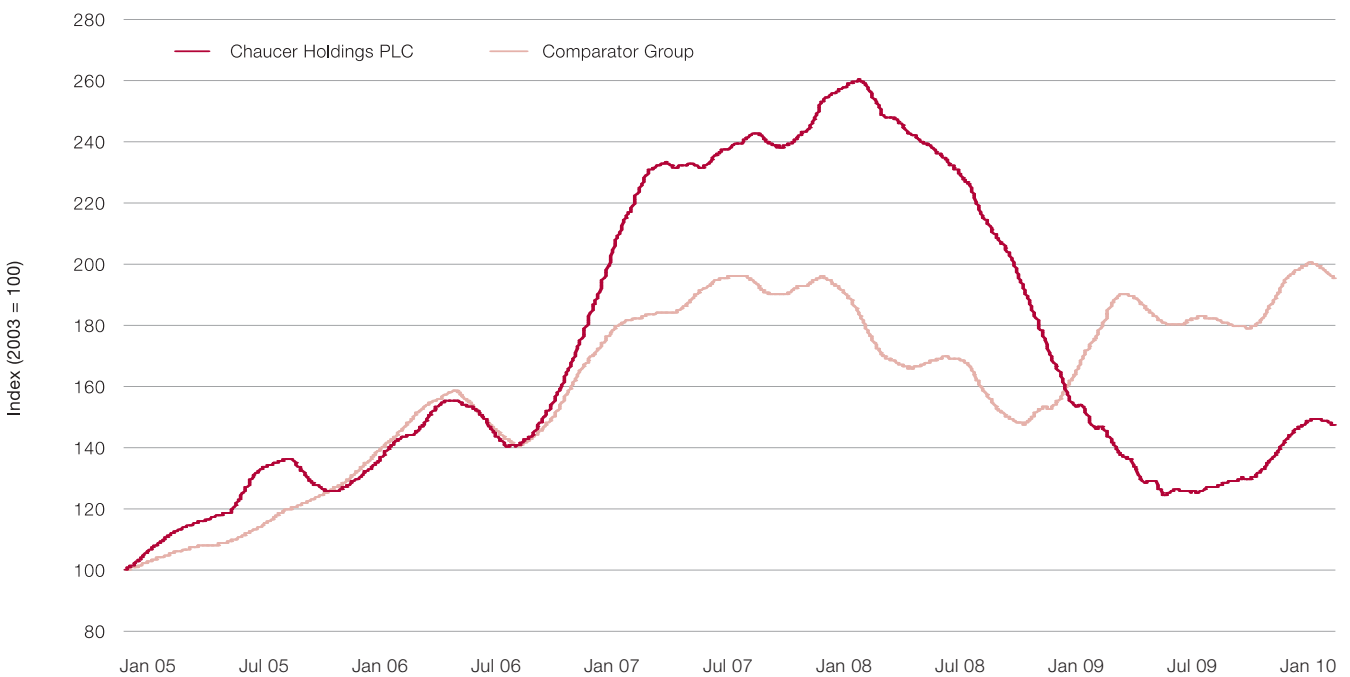
This share option scheme, approved by shareholders in 2001, operates in conjunction with the Unapproved Share Option Scheme described above. It allows the Company the ability to grant share options over shares up to a value of £30,000 to any individual employee in a more tax efficient manner than under the Unapproved Performance-Related Share Option Scheme. On 17 May 2001, the Company made an initial grant of share options under the Scheme. The share options are exercisable at any time between three and ten years of the date of grant, subject to the TSR of the Company over any consecutive three-year period after the grant of the share options exceeding the average TSR of the companies in the FTSE All Share Index over the same period.

**PERFORMANCE GRAPHS**

The following graph shows the Company's performance, measured by TSR, compared with the TSR of the FTSE All Share Index (the performance measure for share options granted under the executive share option schemes).

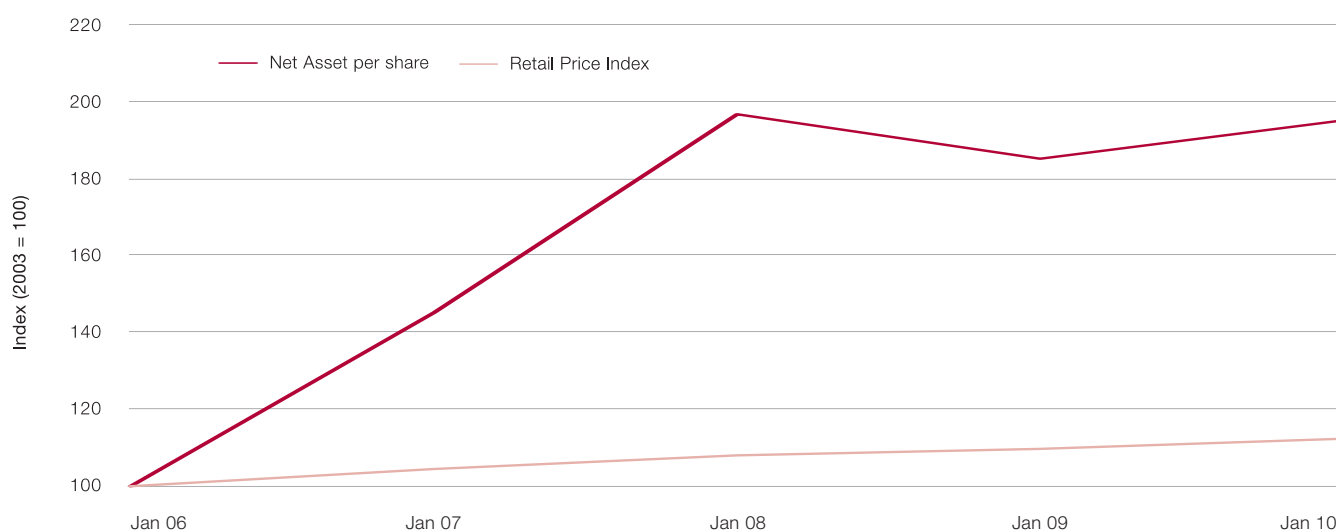


The following graph shows the Company's performance, measured by TSR, compared with the TSR of the comparator group, for the determination of 50% of the matching shares under the DSBP.



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The following graph shows the Company's performance, measured by the change in NAV per share compared with the RPI for the determination of 50% of the matching shares under the DSBP.



### REVIEW OF REMUNERATION STRUCTURE AND PROPOSALS TO SHAREHOLDERS

During the later part of 2009 and into February 2010, the Committee undertook a review of the remuneration structure. Remuneration consultants were engaged to support the Committee in this review and it is believed that the proposals reflect current good practice, will enhance the motivational effect of the short and long-term incentive elements within our remuneration arrangements and will maintain our position against competitors for senior talent, helping us to recruit and retain the high calibre management team that we need to continue to deliver shareholder value.

The objectives of the review were to address certain perceived weaknesses in the current arrangements whilst maintaining their strengths. In particular:

- To provide greater flexibility for the Remuneration Committee regarding awards under the long term incentive plan, by separating that reward element from the annual bonus award;
- For any performance condition to provide a clear line of sight and to maximize the motivation of executives in respect of the long term incentive plan; and
- To maintain strong alignment with shareholder interests, strong retention mechanisms and an appropriate division of profit between shareholders and management.

Major shareholders were consulted during February and the first change (not requiring shareholder approval) was implemented in March with the attachment of a revised NAV performance condition (see following table) to the matching share award under the DSBP.

The Notice includes two proposals to be put to shareholders as items of special business at the AGM on 19 May 2010:

- A new standalone performance share plan for executives; and
- Renewal of the existing Approved Company Share Option Scheme.

Details to support those resolutions are set out in the Notice.

Other key proposals, which do not specifically require shareholder approval but are set out below to provide shareholders with a full picture, are:

- Introduction of a cap on the annual bonus of 200% of base salary;
- For Executive Directors, 50% of the annual bonus to be compulsorily deferred into shares;
- Cessation of awards of 'matching shares' under the DSBP, this element to be replaced by the standalone performance share plan referred to above;
- A single performance condition based on NAV to be applied to the awards under the standalone share plan (and the March 2010 final Matching Share awards under the DSBP);
- Administrative changes to the structure of existing DSBP awards; and
- The introduction of shareholding guidelines (see below).

Whilst it is impossible to predict the exact cost of either the annual or long-term incentive measures, the modelling undertaken to support these proposed changes led the Committee to believe that the overall cost to shareholders across the insurance cycle would be similar to the existing arrangements.

The key changes are set out in the table which follows.

Feature	Current position	Proposed position
Annual bonus	Uncapped	Capped at 200% of base salary
Bonus deferral (compulsory)	DSBP: 25% below 150% of salary 100% above 150% of salary	50% of total for Executive Directors, reducing to 15% for junior executives
Long-term incentive provision	DSBP: Matching share award based on number of deferred shares (excluding those above 150% of salary)	Award of performance shares (under a new standalone share plan) the quantum and timing of which is not linked to the annual bonus
Long-term incentive award levels	Entirely dependent on annual bonus level and any voluntary deferral of bonus, up to a maximum of 150% of salary. Matching shares dependent on attainment of performance conditions	Scheme maximum: face value of 150% of base salary It is currently anticipated that the first award to Executive Directors will be at the maximum level and around 37.5% for junior executives
Performance conditions	TSR against index of competitors; and NAV against RPI	Sole condition: NAV against RPI
Threshold vesting rate	12.5% at TSR index +15% 12.5% at RPI + 15%	16.7% at RPI + 13.5%
100% vesting at	TSR index + 45%, and RPI + 45%	RPI + 58.5%
Performance period	3 years	3 years
Dividend Shares	Accrue on all deferred shares but not any matching shares	Accrue on deferred shares but not awards under the new share plan

The switch from bifurcated TSR and NAV performance conditions to a single NAV performance condition is due to two reasons:

- Comparative TSR has become problematic because, due to the number of consolidations within the sector over the past few years, it is no longer possible to select a robustly-sized comparator group of companies similar to Chaucer; and
- A NAV target provides the greatest line-of-sight for the executive team and therefore provides the greatest incentive effect to drive Company performance. NAV continues to be the key factor in determination of share value by the market.

The Committee considers that this measure best indicates the success of management's stewardship of the Company and continues to be appropriately stretching.

#### SHAREHOLDING GUIDELINES

Executive Directors will be required to hold shares with a value equivalent to 150% of base salary. The value of shares will be based on the average share price for the period 1 July to the announcement of the half-year results and will include unfettered and available shares held under the Company's AESOP but not share options or awards held under any other Company share scheme.

NEDs will be required to hold shares with a value equivalent to 100% of base fee in respect of services provided to the Group.

Each current Director will have until May 2013 to meet this guideline and each new Director will have three years from the date of appointment.

While below the target shareholding, a Director will be allowed to sell up to 50% (net of tax) of shares vested from any Company share scheme but would not otherwise be allowed to sell shares.

#### SHARE USAGE

Overall usage of new issue shares for all share schemes remains well within ABI limits to prevent excessive dilution. The rules of each share scheme replicate those limits, including the proposed new LTIP.

Typically, SAYE maturities have historically been satisfied through a mixture of new issue shares and market purchase shares, either directly or from the Employee Benefit Trust.

Partnership, Matching, Free and Dividend Shares under the SIP have all very largely been met through market purchase shares either directly or through the Employee Benefit Trust. Occasionally, as for example in 2006, new issue shares have been used to satisfy part of the Free Share awards where it was not possible to satisfy the whole award through market purchases.

Historically, the Company has met the exercise of ESOS awards through market purchase shares, although more recently, many have been cash settled based on the closing market price on the day of exercise to avoid dealing and spread costs to both Company and participant.

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The Company has established an Employee Benefit Trust to hedge the cost of DSBP awards against share price increases and to facilitate vesting administration. At 31 December 2009, the Trust held 23,254,222 shares to satisfy awards under any share scheme. Those shares have been entirely purchased in the market.

### DIRECTORS' CONTRACTS

All Executive Directors have contracts that expire at the normal retirement age of 60 and provide for 12 months' notice.

The details of the Executive Directors' contracts are summarised in the table below:

	Date of contract	Notice period
B P Bartell	27 January 2010	12 months
K D Curtis	27 January 2010	12 months
R A Stuchbery	28 January 2010	12 months

In the event of early termination, the Executive Directors' contracts provide for compensation up to a maximum of basic salary for the notice period.

### NON-EXECUTIVE DIRECTORS

The Chairman and all NEDs are appointed under letters of appointment that are subject to a mutual notice period of six months. Their current terms of appointment are as follows:

	Date first appointed to the Board	Expiry date of letter of appointment
R V Deutsch	26 August 2009	30 September 2011
M J Gilbert	27 October 1993	AGM 2011
R T Scholes	11 March 2003	AGM 2012

It should be noted that Robert Deutsch had served previously as an NED between January 2002 and December 2008.

The Executive Directors of the Board determine the remuneration of the NEDs, within the limits set by the Articles of Association, from independent surveys of fees paid to NEDs of similar companies.

The Chairman and NEDs receive fees for their work as members of the Board and Board Committees. Additionally, since 1 January 2010 Robert Deutsch has acted as Non-executive Chairman of CSL and since 1 January 2009 Richard Scholes has acted as a NED of CSL.

It has been agreed that the NEDs can elect to have part of their fee as shares bought in the open market. The first shares under this arrangement were bought in February 2010.

The NEDs do not participate in any of the Company's share option schemes and are not eligible to join the Company's pension scheme.

### AUDITED INFORMATION

	Fees/ basic salary £000	Benefits in kind £000	Share incentive plan £000	Annual cash bonus £000	Value of deferred shares awarded £000	Termination payments £000	2009 Total £000	2009 Total excluding value of deferred shares awarded £000	2008 Total £000	2008 Total excluding value of deferred shares awarded £000
<b>Directors' emoluments</b>										
<b>Executive</b>										
B P Bartell	118	1	4	72	72	-	267	195	-	-
K D Curtis	6	-	-	4	4	-	14	10	-	-
E H Gilmour	273	2	3	-	-	136	414	414	282	282
M C Graham	119	1	1	-	-	290	411	411	246	246
R A Stuchbery	301	2	6	166	166	-	641	475	311	310
<b>Non-executive</b>										
R V Deutsch	34	-	-	-	-	-	34	34	54	54
C D Forbes	43	1	-	-	-	43	87	87	87	87
M J Gilbert	64	-	-	27	-	-	91	91	64	64
R T Scholes	76	-	-	20	-	-	96	96	61	61
<b>Aggregate emoluments</b>	<b>1,034</b>	<b>7</b>	<b>14</b>	<b>289</b>	<b>242</b>	<b>469</b>	<b>2,055</b>	<b>1,813</b>	<b>1,104</b>	<b>1,104</b>

Mark Graham left the Company in June 2009 to pursue other opportunities. The shares awarded to him in previous years as part of his remuneration package vested immediately after his departure. Details of those shares can be found in the 2008 Annual Report. The termination payment shown in the above table represents the Company's contractual notice obligations to Mr Graham.

Ewen Gilmour retired from the Company in December 2009. Details of shares awarded to him in previous years as part of his remuneration package and which vested immediately after his departure or which remain outstanding are detailed below. The termination payment shown in the above table represents the Company's contractual notice obligations to Mr Gilmour.

Chris Forbes left the Company in June 2009 and the termination payment shown in the above table represents the Company's contractual notice obligations to Mr Forbes.

One-off 'bonus' payments were made to Martin Gilbert and Richard Scholes in respect of the significant additional time demands experienced by the NEDs during the extended offer period from January to June 2009.

In addition to the fees shown in the above table, payments totalling £27,000 were made to Robert Deutsch for the six months to 30 June 2009 in respect of consultancy services provided during that period when he was not a Director.

The Company paid emoluments in respect of Martin Gilbert to Aberdeen Asset Management PLC until 1 October 2009, when payments commenced to be made directly.

The Remuneration Committee agreed revised base annual salaries for 2010 for the Executive Directors to reflect their new responsibilities:

- R A Stuchbery (Chief Executive Officer) £350,000
- B P Bartell (Chief Underwriting Officer) £275,000
- K D Curtis (Chief Finance Officer) £180,000 (which will be reviewed during the year)

The Share Incentive Plan column shows the aggregate cash value of both matching and free shares for awards arising for 2009; no consideration is payable at the date of award.

	Shares (direct holdings)	DSBP <sup>1</sup> Deferred Shares	SIP <sup>2</sup> Available and Conditional	SIP <sup>3</sup> Locked-In	Total shares
<b>Directors' interests at 31 December 2009</b>					
B P Bartell	650,869	2,076,368	79,961	33,638	2,840,836
K D Curtis	138,455	485,174	50,690	30,800	705,119
R V Deutsch	350,000	-	-	-	350,000
M J Gilbert	190,625	-	-	-	190,625
E H Gilmour <sup>4</sup>	2,517,485	-	81,459	25,801	2,624,745
R T Scholes	75,000	-	-	-	75,000
R A Stuchbery	1,494,551	2,523,869	81,456	25,801	4,125,677
<b>Directors' interests at 31 December 2008 or at date of appointment</b>					
B P Bartell	367,000	2,083,856	73,809	32,049	2,556,714
K D Curtis	138,455	485,174	50,690	30,800	705,119
R V Deutsch	228,750	-	-	-	228,750
M J Gilbert	125,000	-	-	-	125,000
E H Gilmour	584,839	2,139,385	66,349	28,217	2,818,790
R T Scholes	30,000	-	-	-	30,000
R A Stuchbery	1,107,291	2,491,416	66,349	28,217	3,693,273

1 DSBP Deferred Shares; these are awards of Deferred Shares under the DSBP. For 2009, Bruce Bartell was awarded 51,147 Deferred Shares and Ken Curtis was awarded 54,634 Deferred Shares on 30 June 2009. No award was made to Robert Stuchbery in 2009

2 SIP Available and Conditional Shares; these are shares held in the SIP that the Director may sell and may be subject to PAYE and NIC

3 SIP Locked-in; these are shares held in the SIP that would be forfeited if the Director left the Company except under the "good leaver" provisions

4 1,556,637 DSBP deferred shares were released to Ewen Gilmour on his retirement on 31 December 2009

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### MATCHING SHARES UNDER DEFERRED SHARE BONUS PLAN

The matching share element of the DSBP is a long-term incentive scheme and is therefore disclosed separately. The release of matching shares is subject to the achievement of performance conditions outlined on page 56.

Maximum contingent interest in matching shares under the DSBP is set out in the table below:

	Date of award	Number of shares at 1 January 2009 or at date of appointment	Allocated in year	Adjustment for Placing & Open Offer in February 2009	Vested in year	Lapsed in year	Number of shares at 31 December 2009	Release date
B P Bartell	31/05/06	117,270	-	-	58,635	58,635	-	-
	22/03/07	338,740	-	-	-	-	338,740	22/03/10
	13/03/08	364,412	-	-	-	-	364,412	13/03/11
	30/06/09	-	102,294	-	-	-	102,294	30/06/12
K D Curtis	22/03/07	200,316	-	-	-	-	200,316	22/03/10
	13/03/08	213,132	-	-	-	-	213,132	13/03/11
	30/06/09	109,268	-	-	-	-	109,268	30/06/12
E H Gilmour	31/05/06	178,012	-	9,620	93,816	93,816	-	-
	22/03/07	378,540	-	20,456	-	-	398,996	22/03/10
	13/03/08	401,232	-	21,684	-	-	422,916	22/03/10
R A Stuchbery	31/05/06	193,906	-	10,480	102,193	102,193	-	-
	22/03/07	417,168	-	22,544	-	-	439,712	22/03/10
	13/03/08	440,880	-	23,828	-	-	464,708	13/03/11

All holdings shown in the above tables are in ordinary shares in the Company.

### DIRECTORS' SHARE OPTIONS

Aggregate emoluments disclosed above do not include any amounts for the value of share options to acquire ordinary shares in the Company granted to or held by the Executive Directors.

There have been no variations to the terms and conditions or performance criteria for share options during the financial year.

The performance criteria that must be met for the Unapproved and Approved Share Option Schemes are outlined on page 56.

The closing price for the last trading day of the year was 46.0p on 31 December 2009 and the range during the year was 37.0p to 61.23p.

The Executive Directors held the following unexercised share options over ordinary shares under one or more of the share schemes as at the date below.

	Share options outstanding 1 January 2009 or at date of appointment	Share options granted	Share options lapsed	Share options exercised	Adjustment for Placing & Open Offer in February 2009 <sup>1</sup>	Market price on date of exercise Pence	Share options outstanding 31 December 2009	Weighted average exercise price Pence	Exercise period MM/YY
<b>ESOS</b>									
B P Bartell	324,996	-	-	-	-	-	324,996	43.6	05/04-10/14
K D Curtis	189,728	-	-	-	-	-	189,728	41.5	11/06-10/14
E H Gilmour	575,000	-	-	-	31,075	-	606,075	43.6	05/04-10/12
R A Stuchbery	225,000	-	-	-	12,160	-	237,160	61.2	05/04-05/11
<b>SAYE</b>									
B P Bartell	20,649	23,571	20,649	-	-	-	23,571	38.5	12/12-05/13
K D Curtis	40,389	-	-	-	-	-	40,389	38.5	12/14-05/15
E H Gilmour	19,591	-	-	-	1,058	-	20,649	46.5	12/11-05/12
R A Stuchbery	34,183	40,389	36,030	-	1,847	-	40,389	38.5	12/14-05/15

<sup>1</sup> Consequent to the dilutive effect of the Placing and Open Offer on 25 February 2009, all then existing SAYE and ESOS share options and DSBP share awards were adjusted by increasing the number of shares by 5.4044% and decreasing (for share options) the option price by 5.1277%

**CHANGES SINCE 31 DECEMBER 2009**

There have been no changes to the interests of directors in the shares or share options of the Company since 31 December 2009, except for the following:

**1. SIP Shares**

SIP Partnership (P) and Matching (M) Shares	12 January 2010		10 February 2010		9 March 2010	
	P	M	P	M	P	M
B P Bartell	264	528	274	548	271	542
K D Curtis	263	526	275	550	270	540
R A Stuchbery	264	528	274	548	270	540

**2. Forfeitable Share grants on 22 March 2010 and associated maximum Matched Share awards**

	Gross Forfeitable Shares before PAYE and NI	Forfeitable Shares net	Maximum Matched Share award
B P Bartell	295,652	174,435	591,304
K D Curtis	192,392	113,512	384,784
R A Stuchbery	360,870	212,913	721,740

**3. Deferred Shares and Matching Share awards vesting 22 March 2010**

	Deferred Shares vesting	Matching Shares vesting	Matching Shares lapsing	Dividend Shares awarded and vesting	Shares received net of PAYE and NI
B P Bartell	1,146,510	94,848	243,892	279,439	897,270
K D Curtis	244,015	56,089	144,227	59,474	212,151
R A Stuchbery	1,443,451	123,120	316,592	351,813	1,131,846

**4. Deferred Shares and Dividend Share awards surrendered and Forfeitable Shares granted 22 March 2010**

	Deferred Shares surrendered	Dividend Shares accrued and surrendered	Gross Forfeitable Shares	Forfeitable Shares granted
B P Bartell	929,858	168,747	1,098,605	648,176
K D Curtis	241,159	36,994	278,153	164,110
R A Stuchbery	1,080,418	205,798	1,286,216	758,867

**5. NED share purchases in lieu of fees in February, March and April 2010**

	1 February 2010	1 March 2010	1 April 2010
M J Gilbert	3,608	3,667	3,457
R T Scholes	2,632	2,675	2,522

## Directors' Remuneration Report

### CHAUCER PENSION SCHEME

#### Pension arrangements

The following Directors were members of the defined benefit scheme provided by the Company during the year.

Pension entitlements and corresponding transfer values increased as follows during the year:

	Gross increase in accrued pension (1) £	Increase in accrued pension net of inflation (2) £	Total accrued pension at 31 December 2009 (3) £	Value of net increase accrual over period (4) £	Total change in value during period (5) £	Value of accrued pension at 31 December 2009 (6) £	Value of accrued pension at 31 December 2008 (7) £
B P Bartell	1,373	1,373	99,507	18,516	183,662	1,798,590	1,612,456
E H Gilmour	4,180	4,180	32,273	67,534	92,187	633,790	536,719
M C Graham	5,224	5,224	31,358	58,859	66,780	413,516	344,736
R A Stuchbery	9,231	9,231	138,310	137,999	191,350	2,542,412	2,346,178

This table should be read in conjunction with the following Notes:

1. Pension accruals shown are the amounts which would be paid annually on retirement based on service to the end of the year, ignoring future salary growth or benefit revaluation.
2. Transfer values have been calculated in line with the relevant UK regulations.
3. The value of net increase (4) represents the incremental value to the director of his service during the year, calculated on the assumption that service terminated at the year-end (with the exception of Mark Graham – see Note 8 below). It is based on the accrued pension increase (2) after deducting the director's contribution.
4. The change in the transfer value (5) includes the effect of fluctuations in the transfer value due to factors beyond the control of the Company and directors, such as stock market movements. It is calculated after deducting the director's contribution.
5. Voluntary contributions paid by directors and resulting benefits are not shown.
6. The gross increase in accrued pension (1) is equal to the net increase in accrued pension (2) because inflation over the year was negative. For the purposes of these disclosures inflation is treated as having been zero over this period.
7. Bruce Bartell was appointed as a Director on 23 June 2009. Figures shown at 31 December 2008 are at 23 June 2009 for Bruce Bartell. References to the period for Bruce Bartell refer to the period from his appointment as a Director.
8. Mark Graham left the Scheme on 24 June 2009 at which point his pension accrual ceased.
9. Ewen Gilmour was also granted an additional six months pensionable service on leaving the Company.

Ken Curtis was a member of the defined contribution scheme provided by the Company during the year. The money purchase contributions, from his date of appointment to the Board were as follows:

	Employee Contributions	Employer Contributions	Total
K D Curtis	£737	£1,719	£2,456

The Company is presently consulting members of the defined benefit section regarding the following proposed changes:

- The accrual rate for future benefit be generally reduced to 75ths from 60ths for members, except that for a very limited number of senior employees (including Bob Stuchbery and Bruce Bartell) to 60ths from 45ths
- Limiting pensionable salary increases to 5% in any one year;
- Increasing the Normal Retirement Age to 65, for future benefits only; and
- Increasing the employee contribution rate from 4% to 6%.

Dependent on that consultation, it is proposed to introduce those changes with effect from 1 May 2010.

This Report was approved by the Board of Directors on 7 April 2010 and signed on its behalf by

**Robert Deutsch**

Chairman, Remuneration Committee

