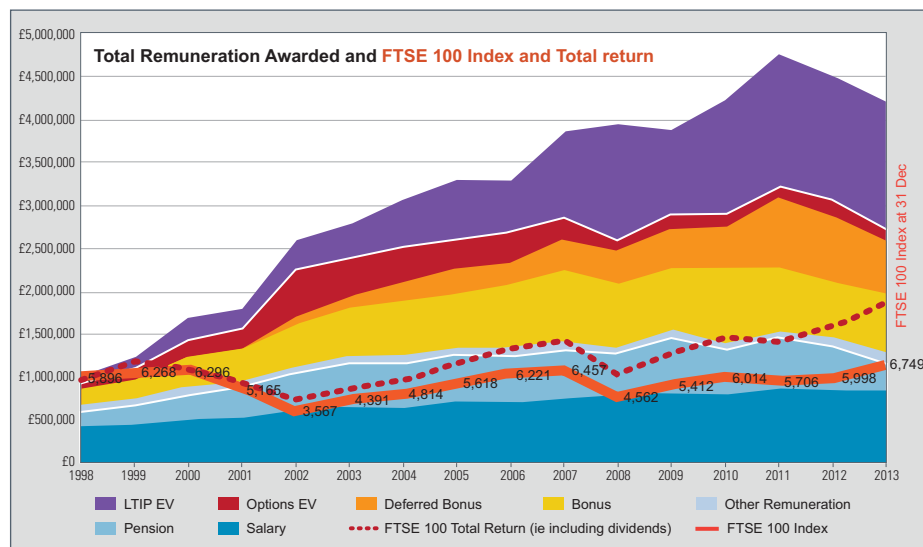


MM&K /Manifest Pay and Performance Survey

- Shareholder Spring effect has reduced CEO pay awards by 7%, following a 5% reduction in the previous year.
- Regulatory intervention has had a galvanising effect. Vince Cable's efforts and threats of further legislation have helped in the reduction in CEO pay.
- The accounting-based 'Single Figure' of total remuneration is not a true and fair view of pay. It dramatically understates the real amounts of remuneration that will be earned and should be revised.



Long Term Trends in Total Remuneration Awards Show Top Pay is Reducing

The latest survey shows that top pay awards have reduced for two consecutive years: by -7% in 2013 and -5% in 2012. The findings are from research and analysis of the latest annual reports of FTSE 100 companies.

The graph, above, of the average 'Total Remuneration Awarded' to CEOs of FTSE 100 companies, shows how awards topped out in 2011 and then, with the impact of the Shareholder Spring in 2012, awards coming down.

Pay and Performance

The new regulations require a more thoughtful approach to communicating pay to shareholders which require access to good, reliable, robust, independent, trusted data. MM&K and Manifest are both independent and produce such data.¹

We have renamed the Executive Director Total Remuneration Survey "the PAY AND PERFORMANCE SURVEY" because we are now including additional information on:

- performance measures
- performance outcomes
- how pay and performance are linked.

Volume 1, available now, contains all the information that we have always produced in the total remuneration survey, including salaries, bonus, deferred bonus, LTIPs, options, pensions and other benefits – including quartiles, medians and averages, with detailed breakdowns by company size.

Volume 2, which is still being analysed, contains all the new information and analysis on performance, measures, outcomes and pay/performance measure ratios. This will be published in September 2014.

Single Figure up 3% but total remuneration awarded reduces by 7%

The Single Total Figure of Remuneration² has gone up³, by 3%. This measures the amounts vested from long term incentives that vested in the latest year⁴ or soon after the year end: so this reflects a combination of three things:

- change in LTIP amounts awarded three years ago versus four years ago⁵
- % change in share price from three years ago to the latest year, compared to the % change in share price from four years ago to one year ago
- % vesting from LTIPs awarded three years ago compared to the % vesting from LTIP awards four years ago.

1 For example, BIS have used our data in a number of its consultations and press releases.

2 The Single Total Figure of Remuneration as specified in the the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

3 Throughout this report we will use the average of the FTSE 100 CEOs, unless we state otherwise.

4 For the majority, this was 31 Dec 2013.

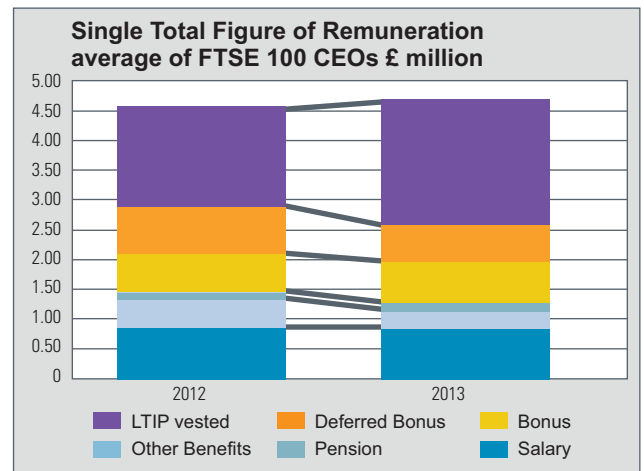
5 Not all LTIPs are three years but the majority are, so we say three years for the convenience of reading.

Salary increases, changes in bonus amounts awarded and changes in benefits also impact the Single Figure.

However, the biggest driver of the Single Figure is the change in LTIP amounts vesting, which is a result of decisions made by the remuneration committee three years ago and subsequent events beyond their control.

What remuneration committees can most affect (and hence how they should be primarily judged) is the expected value⁶ of Total Remuneration Awarded in the year. This includes the expected value of long term incentive awards. Last year the Total Remuneration Awarded went down by 7%, because:

- the average salary went down 1% (this was partly the effect of joiners and leavers - the median change was +2%)
- the immediate cash element of annual bonuses went up 6% but deferred bonuses went down 22%, so the net effect was a 9% decrease in bonuses
- LTIs (expected value) were unchanged, but the amounts vesting according to the Single Figure definition went up 25%, partly due to the strong stock market over the past 3 years
- pensions went down by 37% (but we suspect much of this is due to the new Single Figure methodology which we think understates the real value of pension⁷).



Points to note when considering the data

Context is so important. For example the FTSE 100 index went up by 14% in 2013.

Understanding the data is key. For example:

- the Single Figure has a rear end loading issue in that awards made now do not register in the Single Figure until several years later. Consequently new recruits look like they are paid much less than the previous incumbents.
- companies that extend their vesting periods can show reduced levels in their Single Figure.

The average data, below, show how the whole market has moved, but the medians and quartiles (which are in the survey) are much more useful for remuneration committees when developing remuneration policy and benchmarking pay.

5 Year Averages of FTSE 100 CEO Pay

Year	Total Rem Awarded £m	Total Rem Realised £m	Single Total Figure of Rem £m	Total Rem Awarded % change of the average	Total Rem Realised % change of the average	Single Total Figure of Rem % change of the average
2008	3.96					
2009	3.90	5.41	4.22	-2%		
2010	4.25	4.27	4.73	9%	-21%	12%
2011	4.77	3.84	4.43	12%	-10%	-6%
2012	4.53	4.09	4.57	-5%	6%	3%
2013	4.23	4.72	4.70	-7%	15%	3%

⁶ Some people may refer to this as the fair value of awards. Either terminology can be used.

⁷ Note: not all agree with us. Some people argue that the old method overstates the real value of pension.

The table above shows:

1. The trend of reducing **Total Remuneration Awarded** in 2012 and 2013 is clear. The average has fallen from £4.8m to £4.5m to £4.2m.
2. The **Total Remuneration Realised** of £5.4m in 2009 looks surprisingly high. However, the average LTI realised in 2009 was £3.1m. A number of very high payouts influenced the figure (e.g. Reckitt, BG, Schroder, Tesco and Experian).
3. Both the **Total Remuneration Realised** and the **Single Figure** went down by a similar amount in 2011, due to the increase of £328,000 in deferred bonus awards in 2011, off set by the lower amounts of LTI.

10 year graph and story telling

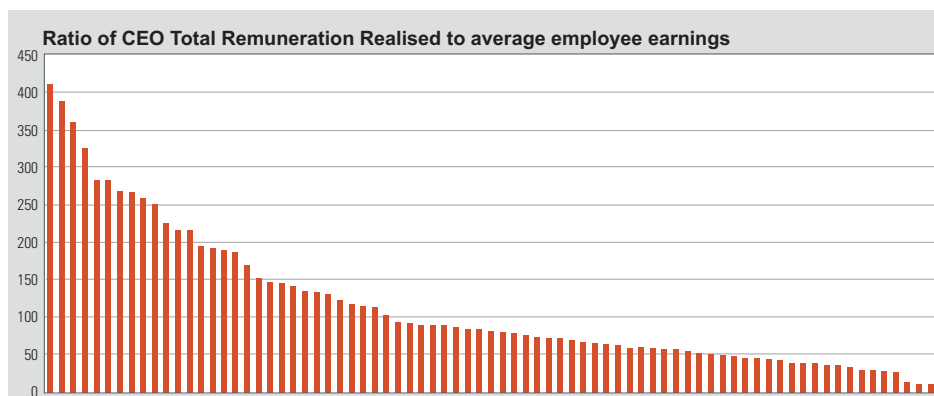
The regulations require a minimum of 5 years' history of TSR, Single Figure, bonus as % maximum and % of LTIs vesting. The 5 years minimum will become 6 years and will rise so that it becomes 10 years from October 2018 onwards.

Relative sector performance and other statistics are crucial to being able to tell your shareholders a story of how you are doing and the appropriateness of pay levels: awarded, paying out and liable to be paid out.

CEO pay is still only 2.5 bp (basis points), i.e. 0.025% of market cap. Active fund managers charge many times this and often do not do better than passive strategies. On this basis good CEOs are good value.

CEO pay is typically only 0.3% of the change in market cap measured over 5 years. Volume 2 of our report will provide much more detail on these types of metrics.

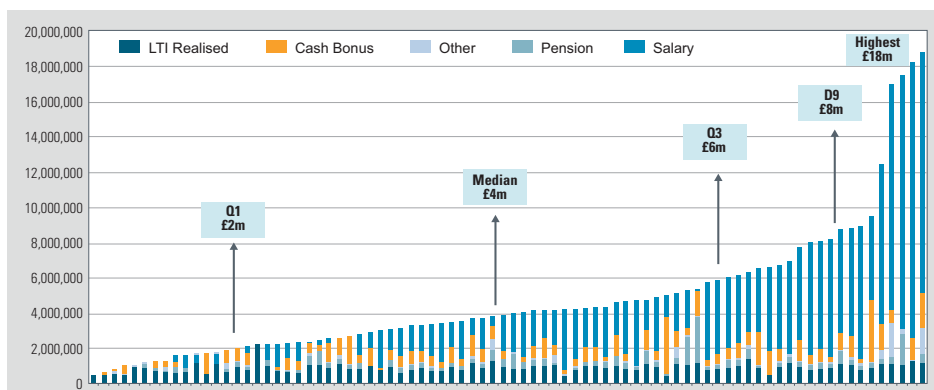
The ratio of CEO Total Remuneration Awarded to average employees' earnings has now reduced to 121 from a peak of 151 in 2007. Perhaps the media buzz on this is overdone. However, the wide range of ratios means accurate sector comparatives are essential.



Are all FTSE 100 CEOs paid the same?

No, not by a long way. The graph below shows the variation in Total Remuneration Realised across the FTSE 100 constituents.

Although no adjustment for size has been made, the data shows how large the variation is. Most of this is due to the performance related elements of pay, and most of that is due to long term incentives. The highest payouts occur where there has been strong share price performance.



Conclusion

- You need really solid data/ clearly explained
- Buy the survey
- Only use survey data from an independent source⁸.

⁸ The Remuneration Consultants Group Code of Conduct stresses that data should not be massaged by remuneration consultants. Nor should executive management be allowed to be selective in the data presented to remuneration committees. Their Code has strict rules on how data should be collected, analysed and presented. Using the MM&K/Manifest Pay and Performance Survey ensures your remuneration committee meets these strict hurdles for best practice.

SURVEY DETAILS

MM&K and Manifest collaborate to produce a survey of the total remuneration of executive directors is the first to report data from **all** listed companies with 31st December year end. Manifest analyses the remuneration reports of companies as soon as they are published. No-one else collects this information so quickly, accurately and comprehensively.

Recent reports in the press of directors pay show some exciting and some egregious remuneration, but companies considering remuneration changes need to consider the whole picture.

Survey Contents

The survey covers all UK quoted and many AIM companies with detailed analyses of:

- **Salaries** and salary increases
- **Bonus plans** (actual payments in £, as % salary, maximum potential, actual as % of maximum, deferred amounts and terms)
- **Long term incentives** (expected value of awards, % as options and as LTIPs, maximum face value of awards and EPS and TSR performance criteria vesting targets, threshold and maxima)
- **Pensions** (with separate value data for DB, DC and cash allowances)
- **Total remuneration** both in total £ and % mix
- **Internal differentials**
- **Sector** differences
- Long term **trends** in salaries and total remuneration.

September Update Included

In addition to the July report, purchasers will receive a free copy of the September update of the survey. The update is produced as soon as all the companies with 31st March year ends have published their annual reports. Very useful in planning 1st January 2015 pay reviews.

Why buy the Survey?

1. The **most reliable**, authoritative data at your fingertips.
2. Simple **easy to use tables** with breakdowns by job and turnover and market capitalisation categories, as well as tables for each of FTSE 100, FTSE 250, Small Cap, AIM and Fledgling companies.
3. **Unique analysis** of performance measures, outcomes and pay and performance linkages for FTSE 350 companies. This will be published in September 2014.
4. Executive Summary of key points and more detailed commentary of **trends** and **remuneration issues**.
5. Buying now will allow you to **plan ahead** and organise your future survey purchases.
6. Buying now automatically gives you the **September update**, which includes 31st March y/end reports.
7. Single survey report covering both **large and small companies**, so no need to buy separate reports. Our report allows you to see the **whole market picture** and differences in approach.
8. The provision to the remuneration committee of independently produced data is considered **best practice in corporate governance**.

Recent press coverage of the survey includes

<http://www.ft.com/cms/s/0/0423b2e0-04e7-11e4-b098-00144feab7de.html#axzz36jGxigK9>

FTSE 100 chiefs' pay falls for second year by Alison Smith, Chief Corporate Correspondent.

<http://ftalphaville.ft.com/2014/07/07/1893922/the-6am-london-cut-207/>

FTSE 100 chiefs' pay falls for second year

<http://www.dailymail.co.uk/news/article-2684359/Bosses-Britains-100-firms-enjoyed-15-pay-rise-year-taking-average-salaries-4-72million-compared-typical-workers-salary-26-500-year.html>

<http://www.cityam.com/1404782089/shareholder-spring-reduces-top-pay-awards>

<http://www.managementtoday.co.uk/news/1302608/take-that-inflation-starting-salaries-record-high/>

How to buy the survey

To order the survey email tracy.smith@mm-k.com or phone Tracy on 020 7283 7200.

Price: £750 to FTSE 350 companies; £500 to Small Cap, AIM and others

For more information about Manifest visit www.manifest.co.uk

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