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PEOPLE SERVICES

# KPMG's Guide to Directors' Remuneration 2011

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# Highlights

The key highlights of this year's guide are:

## **Basic salary**

Nearly half of FTSE 350 companies froze salaries in 2011. Where made, increases were only around 3%. This is similar to last year but much lower than the level of increases seen in years prior to 2010.

## **Annual bonus and deferred annual bonus**

Bonus payments have again seen a significant increase, with bonuses paying out on average at 80% of maximum bonus opportunity for executive directors in both FTSE 100 and FTSE 250 companies. However, executives may not have seen more cash in their hands because a large proportion of FTSE 350 companies have a requirement for a significant amount of any annual bonus (typically 33%-50%) to be deferred. Deferrals are typically into shares and for a period of three years. Deferred bonus plans now less commonly offer a matching award than in previous years and interestingly this trend is not limited to the financial sector.

## **Long-term incentives**

Performance share plans remain the most common form of long-term incentives for executive directors in FTSE 350 companies. The level of grants under PSPs has increased from 2010, with median awards in excess of 200% of basic salary for directors of FTSE 100 companies and in excess of 100% of basic salary for directors of FTSE 250 companies. Actual payouts received during the year under PSPs increased across all roles for FTSE 100 companies but decreased across all roles for FTSE 250 companies compared to 2010.

## **Non-executive directors' fees**

The majority of FTSE 100 companies and almost half of FTSE 250 companies increased base fee levels for non-executive directors in 2011. Anecdotal evidence suggests that some companies have begun to conduct annual reviews of non-executive directors' fees, in line with the practice for executive directors, although this remains a minority practice.

## **Regulatory and governance context**

New ABI guidelines on executive remuneration were issued in September 2011. Although these largely restated the principles of earlier versions of the guidelines, the tone of the new guidance is stronger in places, particularly in terms of managing the quantum of remuneration. They note that remuneration structures should include a high degree of deferral as well as malus or claw-back arrangements. The FSA Remuneration Code has been revised and supplemented throughout the year and now extends to a wider range of financial services firms subject to a principle of proportionality. Recent pensions changes and the 50% tax rate also continue to have some bearing on executive remuneration design.

# Summary findings

## FTSE 100

The table below summarises median market practice in FTSE 100 companies for chief executives, finance directors and other executive directors, as reported in this guide.

	Chief Executive	Finance Director	Other Executive Directors
<b>Salary increase</b>	2%	2%	2%
<b>Basic salary (£000s)</b>	<b>825</b>	<b>491</b>	<b>483</b>
<b>Annual bonus</b>			
<b>Maximum bonus (percentage of salary)</b>	180%	160%	150%
<b>Total bonus (percentage of maximum)</b>	81%	82%	77%
<b>Total bonus (percentage of salary)</b>	140%	124%	114%
<b>Most common performance measure</b>	Individual performance/profit	Individual performance/profit	Individual performance/profit
<b>Deferred bonus</b>			
<b>Maximum permitted deferral (percentage of annual bonus)<sup>1</sup></b>	50%	50%	50%
<b>Typical matching ratio, if applicable</b>	1:1 / 2:1	1:1 / 2:1	1:1 / 2:1
<b>Deferral period</b>	3 years	3 years	3 years
<b>Most common performance measure on matching shares</b>	EPS* growth	EPS* growth	EPS* growth
<b>Performance share plans</b>			
<b>Maximum award (percentage of salary)<sup>1</sup></b>	200%	200%	200%
<b>Actual award (percentage of salary)<sup>1</sup></b>	204%	203%	202%
<b>Most common performance measure</b>	TSR** relative to comparator group and EPS growth	TSR** relative to comparator group and EPS growth	TSR** relative to comparator group and EPS growth
<b>Share option plans</b>			
<b>Actual gains (percentage of salary)<sup>2</sup></b>	72%	125%	129%
<b>Actual grant (percentage of salary)<sup>1</sup></b>	365%	273%	196%
<b>Most common performance measure</b>	EPS growth	EPS growth	EPS growth
<b>Total earnings</b>			
<b>Actual value of total remuneration (£000s)<sup>3</sup></b>	2,702	1,704	1,626

<sup>1</sup> Face value.

<sup>2</sup> Cash value of any share options actually exercised during the year.

<sup>3</sup> Includes benefits, total bonus and cash value of PSP awards vested and share options exercised in the year.

\* Earnings per share.

\*\* Total shareholder return.

# FTSE 250

The table below summarises median market practice in FTSE 250 companies for chief executives, finance directors and other executive directors, as reported in this guide.

	Chief Executive	Finance Director	Other Executive Directors
Salary increase	2%	2%	3%
<b>Basic salary (£000s)</b>	<b>450</b>	<b>284</b>	<b>273</b>
<b>Annual bonus</b>			
Maximum bonus (percentage of salary)	110%	100%	100%
Total bonus (percentage of maximum)	77%	75%	77%
Total bonus (percentage of salary)	96%	85%	77%
Most common performance measure	Individual performance/profit	Individual performance/profit	Individual performance/profit
<b>Deferred bonus</b>			
Maximum permitted deferral (percentage of annual bonus) <sup>1</sup>	50%	50%	50%
Typical matching ratio, if applicable	1:1 / 2:1	1:1 / 2:1	1:1 / 2:1
Deferral period	3 years	3 years	3 years
Most common performance measure on matching shares	EPS growth	EPS growth	EPS growth
<b>Performance share plans</b>			
Maximum award (percentage of salary) <sup>1</sup>	150%	150%	150%
Actual award (percentage of salary) <sup>1</sup>	124%	109%	114%
Most common performance measure	TSR relative to comparator group and EPS growth	TSR relative to comparator group and EPS growth	TSR relative to comparator group and EPS growth
<b>Share option plans</b>			
Actual gains (percentage of salary) <sup>2</sup>	53%	79%	58%
Actual grant (percentage of salary) <sup>1</sup>	193%	150%	137%
Most common performance measure	EPS growth	EPS growth	EPS growth
<b>Total earnings</b>			
Actual value of total remuneration (£000s) <sup>3</sup>	1,066	622	554

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# Chapter 1

## Introduction

This guide analyses the latest trends in FTSE 350 directors' pay. It covers basic pay and incentives, both short and long-term, for executive directors and non-executive directors' fees. We also look at the wider factors that impact executive pay and how these have changed over the year.

This guide is designed to provide you with a comprehensive picture of the relevant issues and trends in market practice surrounding remuneration for executive and non-executive directors in FTSE 350 companies.

This guide includes a detailed look at the market in terms of pay, together with information on other factors impacting on the executive remuneration landscape, including an analysis of shareholder activism.

This guide is structured to show the information by position; namely chief executive, finance director, other executive directors and non-executive directors, to

enable all the remuneration components of each position to be considered and discussed together. We then include additional information relating to the structure and design of annual bonus plans, deferred annual bonus plans, performance share plans and share options.

This guide is based on data gathered from external data providers (see the methodology appendix for more information) and covers companies with financial year ends up to and including 2 July 2011. The analysis of long-term incentive plans also includes information from shareholder communications on new plans and amendments to existing plans put forward for approval at AGMs until 31 August 2011.





### **Use of this guide**

This publication is designed to be a comprehensive guide to you as a director or policy maker to assist in remuneration planning at your company.

Where possible we have broken down the data obtained from the FTSE 350 into groupings by sector, market capitalisation and turnover to increase the relevance to you.

We recommend that this guide is used in conjunction with other information and in consultation with your advisers to ensure the data is interpreted correct and that it is relevant to your company.

While data provides a useful guide, it is important to note its historic nature, together with the personal circumstances that are attached to each role and benchmark.

### **How KPMG can help**

KPMG is one of the UK's leading advisers on employee incentives and executive compensation.

We have a multi-disciplinary team, able to advise on the tax, regulatory, accounting, design, market practice and corporate governance aspects of UK and global incentive plans.

We have significant experience in advising on all of the following matters:

- Design and implementation of incentive plans
- Executive compensation
- Corporate transactions
- Accounting, valuations and modelling
- Ongoing operation of incentive plans

## Chapter 2

# The Remuneration Landscape

## The landscape surrounding directors' remuneration has continued to evolve over the last 12 months and we have seen stakeholder and media interest in executive pay continuing at a very high level.

The role of the remuneration committee is increasingly complex and companies are expected to think carefully about how remuneration structures are designed and then disclosed and presented to shareholders.

Increased expectations in terms of the oversight function of remuneration committees and the enhancement of disclosure requirements is evidenced by the latest Association of British Insurers (ABI) guidelines on executive remuneration and two consultation documents on executive pay recently issued by the Department of Business, Innovation and Skills (BIS). In the financial sector, there is also increased regulatory scrutiny and some recent trends in the design of pay arrangements in this sector have begun to find their way into the wider context of executive remuneration.

The main goals emphasised by the ABI remain the same, including long-term value creation, aligning pay with performance and business strategy, avoiding excessive remuneration or payment for failure, a careful balance of fixed and variable pay, transparency, simplicity and cost-effectiveness of remuneration structures and appropriate dilution limits.

However, the tone of the new ABI guidance is stronger in places, especially in relation to managing the quantum of remuneration and guarding against excessive or unjustified remuneration, reflecting the ongoing public policy debate in this area. Remuneration committees are urged to look at a range of factors in setting remuneration for a particular company and to avoid contributing to spiralling levels of pay by the constant chasing of a perceived median. It is recognised, however, that high pay for exceptional performance can be consistent with linking remuneration to overall corporate performance.

The new ABI guidelines also pick up other current themes, including that remuneration structures should include a high degree of deferral as well as malus or clawback arrangements. This is consistent with other regulatory developments such as the revised Financial Services Authority (FSA) Remuneration Code applicable to the financial sector, which was published in December 2010 and came fully into force in July 2011. Clawback provisions appear to have become more common in other sectors too,

mostly operating as a further underpin to other performance measures in executive incentive plans.

We can expect further changes to the remuneration landscape in 2012. The BIS consultation documents discuss ideas as wide-ranging as disclosure of the highest paid employees below board level, comparison of directors' pay against median employee pay, employee representation in setting pay and binding shareholder 'say on pay' votes on remuneration. There are practical and other difficulties with some of the proposals made but at a minimum changes to narrative reporting of executive remuneration are likely to be implemented for financial years beginning on or after 1 October 2012.

Fewer tax and regulatory changes in the UK impacting executive remuneration were adopted in 2011. However, changes introduced or announced in 2010 continued to have an impact on incentive plan design and pension provision. Quite a few companies have moved from making conditional awards that deliver shares automatically on vesting to granting PSP awards in the form of nil-cost options as a response to the 50% tax rate. Pension provision for executives continues to be a difficult area. Following the new rules on employment income provided through third parties in Finance Act 2011 (commonly known as disguised remuneration), contributions to employer financed retirement benefit plans are generally no longer effective in tax terms and some companies are considering unfunded pension plans, designed not to trigger the disguised remuneration legislation. (The disguised remuneration legislation has also detained many companies in terms of the detailed operation of their share plans, although it has not had any real impact on plan design.)

Returning to the broader picture, we have now had several years of relative caution with many companies avoiding radical changes to remuneration policies and strategy. Given the continuing high profile of executive remuneration and the economic backdrop, this may well continue into the coming year. However, some companies will want to revisit their remuneration arrangements, because they are no longer working as they should or as part of a wider review of business strategy. Noting all of the above comments, these companies will need to take appropriate account of evolving governance requirements and engage with shareholders,

but will want to ensure that their main focus is on designing plans that fit with and support corporate strategy and goals. In any event, investors can be expected to continue scrutinising new and existing pay arrangements closely and may be given additional tools to do so.

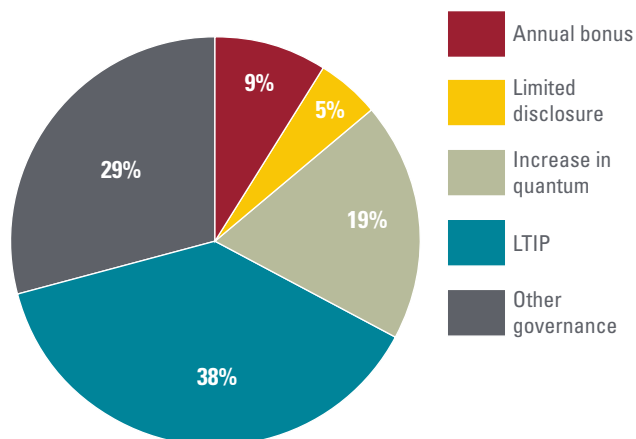
**Shareholder issues**

The remainder of this chapter looks at shareholder responses to directors' remuneration reports and new and amended long-term incentive plans in 2011, as well as considering the types of new and amended plans and performance conditions adopted.

The ABI guidelines have been very influential over a number of years in shaping executive pay, and in particular the design of long-term incentive plans. If we take their voting service as a guide to shareholder sentiment we can see that the actual number of "red tops" which they have issued so far on remuneration reports during 2011 is significantly up on the total number in 2010 – 61 versus 28 in 2010 (AGM reports included represent 92 of the FTSE 100 and 209 of the FTSE 250).

Of those companies who received a red top, five were members of the FTSE 100 index and a further 17 were in the FTSE 250. However, a further 39 red tops given were for FTSE companies outside these indices. Whilst this is a significant increase on the number of red tops in 2010, the data again suggests that the larger companies, who are the subject of much of the focus of corporate governance bodies and the media, are largely operating within accepted governance standards.

For those companies in the FTSE 350 who have received a red top the issues which led to this fall into the following broad categories:



The chart shows that there have been several issues with long-term incentive plans (existing plans rather than new plans). Further analysis reveals issues around dilution limits, lack of or poor disclosure of performance targets and excessive quantum as being the key factors. Outside of the LTIP issues, the use of discretion to make additional payments also continued to be highlighted this year.

So how has this translated into action taken by shareholders when casting their votes? An examination of the trend in votes cast on directors' remuneration reports show increases in the level of opposition<sup>1</sup> and non support<sup>2</sup> when looking at the market generally. However, these figures remain relatively low.

A closer examination of resolutions with a significant level of dissent, which we have defined as greater than 20% opposition or non support, reveals that there has been a decrease in the level of opposition to remuneration report and new share plan resolutions. This contrasts with last year when we saw a significant rise, particularly in relation to remuneration reports.

FTSE All Share	2011	2010	% change
<b>Remuneration reports</b>			
Number of resolutions with greater than 20% Oppose	35	43	-18.6%
Number of resolutions with greater than 20% Not Support	59	63	-6.3%
<b>Share plans</b>			
Number of resolutions with greater than 20% Oppose	7	8	-12.5%
Number of resolutions with greater than 20% Not Support	11	41	-73.2%

Source: PIRC

This contrasts with the increase in public and government disquiet with executive pay, which may have led to an expectation that shareholder opposition would be higher, and it may reflect the fact that companies are investing more time in consulting with their major shareholders on the issue of executive pay.

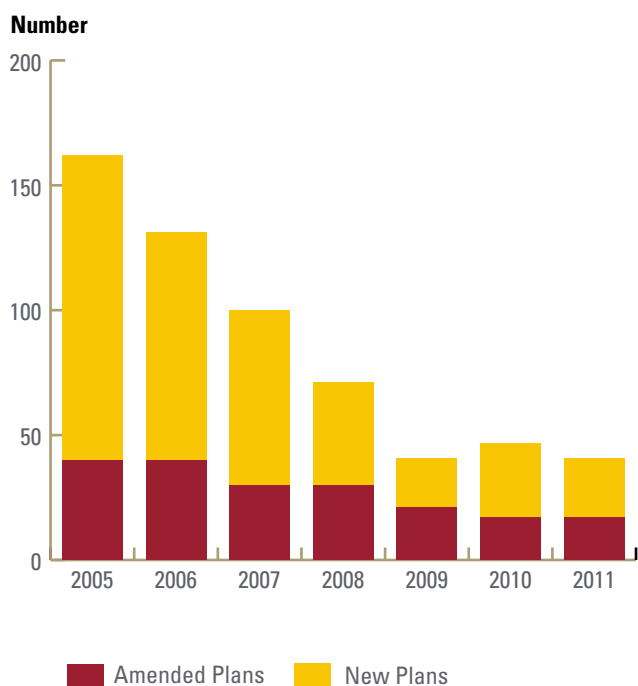
Although the vote on the remuneration report is an advisory one, it is an important reputational issue. Having an ongoing dialogue with shareholders is increasingly seen as part of good governance and, given the diverse nature of shareholders, is critical in obtaining support, whether or not changes are being proposed.



- 
- 1 Defined as votes cast oppose as a proportion of all votes cast including abstain votes
  - 2 sum of votes cast oppose and abstain as a proportion of all votes cast including abstain votes

### New and amended plans

31 FTSE 350 companies submitted 41 new or significantly amended plans to shareholders for approval during 2011 up to 31 August. This number is slightly down on the previous year, although there are still a small number of companies who have not yet had their 2011 AGM so the figures may change.



The following new and amended plans were put to shareholders in 2011:

Plans introduced or significantly amended by FTSE 350 companies			
	2011 (No.)	2010 (No.)	2009 (No.)
Performance share plans	30	31	32
Deferred share bonus plans	0	1	1
Share option plans	8	9	5
Co-investment plans	1	1	1
Other long-term incentive plans	2	5	2
<b>Total plans introduced or significantly amended by FTSE 350 companies</b>	<b>41</b>	<b>47</b>	<b>41</b>

This would suggest that the caution which we have seen during the past two years is continuing. It is also the case that uncertain economic conditions make it difficult for companies to set long-term targets, so the design of new long-term incentive plans becomes harder to do in any meaningful way.

For those companies who amended their LTIPs, a change in performance target was the most common reason, followed by an increase in the size of awards.

Reason	Number	%
Increase in size of award	5	29%
Decrease in size of award	2	12%
Increase dilution limits	1	6%
Change in performance measure	8	47%
Varying the form of awards	2	12%
Reduce exercise price by dividends paid	1	6%
Retrospective changes	0	0%

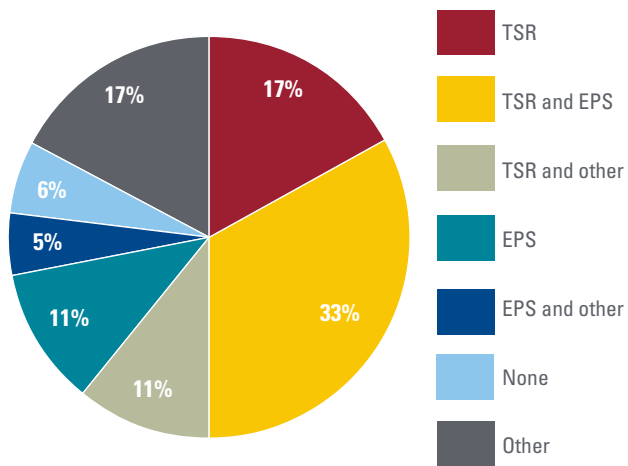
Further evidence of the caution adopted by remuneration committees is seen in the number of red tops given by the ABI. The vast majority of plans received a blue or amber top.

	2011 (No.)	2010 (No.)
Blue topped	13	25
Amber topped	15	13
Red topped	3	3
Green topped	0	0

Two of the plans which were red topped were in breach of the best practice guidelines on share dilution, while the third was in respect of excessive quantum.

### Performance conditions

The following chart summarises the performance conditions applied to plans adopted during the year.




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**TSR remains the predominant measure for new plans, either on its own or with other performance measures**

# Chapter 3

## Market Data Overview

CHAPTER 3 REVIVES, CONSOLIDATED COMPANIES AND  
EXTERS MESSAGING, BRINGING THE FINANCIAL COMP

INDICES	
	CURRENT CHANGE
S&P/TSX CMP	↑ 9473.29 +102.32
S&P/TSX 60	↑ 528.81 +6.55
DOW JONES	↑ 10384.64 +127.69
NASDAQ	↑ 1962.23 +29.16
S&P	↑ 1175.55 +14.40

Across the board, total remuneration has increased as compared to last year as payouts under long term incentives and annual bonuses continue at a high level. Similar to 2010, even when made, basic salary increases are marginal.

For a second year many companies have taken a cautious approach and avoided making drastic changes to remuneration policies and strategies.

The following table summarises the median basic salary, total cash and total actual earnings in the year for all chief executive, finance director and other executive directors (2010 data in parentheses).

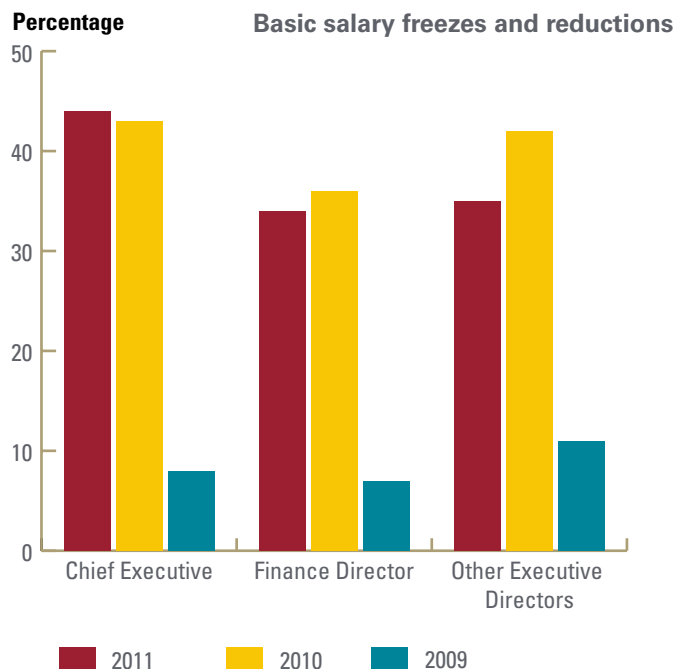
#### Median total remuneration

	Basic salary (£000s)	Total cash (£000s)	Total earnings (£000s)
<b>FTSE 100</b>			
Chief Executive	825 (828)	1,994 (1,743)	2,702 (2,307)
Finance Director	491 (475)	1,106 (1,060)	1,704 (1,356)
Other Executive Directors	483 (474)	1,093 (939)	1,626 (1,454)
<b>FTSE 250</b>			
Chief Executive	450 (440)	850 (747)	1,066 (992)
Finance Director	284 (282)	528 (482)	622 (591)
Other Executive Directors	273 (270)	470 (444)	554 (603)

Median salary increases have been in the range of 2% to 3%, a similar level to that of last year with many companies freezing pay for a second year at the executive director level. The number of companies implementing a pay freeze remains at a similar level to last year, with just under two thirds of these companies also having a pay freeze in 2010.

Pay decreases represent a small number of companies and have largely occurred due to exchange rate differences year on year where executive remuneration is paid in currency other than sterling.

Just over a quarter of salary freezes across the FTSE 350 were in the finance sector.



### Salary levels and differentials by sector

The following tables show the median salary level differentials for chief executives in different market sectors for the FTSE 100 and FTSE 250.

FTSE 100			
Chief Executive	Sample size	Median salary (£000s)	Median salary differential relative to all sectors
Chemicals and pharmaceuticals	6	937	14%
E-business, software and computer services	2	553	-33%
Engineering, electrical and other manufacture	9	675	-18%
Finance	17	785	-5%
Food, drink and tobacco	7	920	12%
Media, marketing and telecommunications	5	1,000	21%
Oil, gas and minerals	18	934	13%
Other services	7	663	-20%
Property	4	577	-30%
Retail and distribution	5	900	9%
Transport and leisure	2	862	4%
Utilities	7	840	2%
<b>All sectors</b>	<b>89</b>	<b>825</b>	<b>0%</b>

FTSE 250			
Chief Executive	Sample size	Median salary (£000s)	Median salary differential relative to all sectors
Chemicals and pharmaceuticals	9	427	-6%
Construction and building materials	12	583	28%
E-business, software and computer services	7	335	-26%
Engineering, electrical and other manufacture	27	439	-4%
Finance	23	406	-11%
Food, drink and tobacco	9	494	8%
Media, marketing and telecommunications	11	600	32%
Oil, gas and minerals	27	387	-15%
Other services	27	450	-1%
Property	12	448	-2%
Retail and distribution	18	521	14%
Transport and leisure	18	525	15%
Utilities	3	345	-24%
<b>All sectors</b>	<b>203</b>	<b>456</b>	<b>0%</b>

Industry classifications are based on the Incomes Data Services industry groupings which reflect the composition of the FTSE 350.

**Salary differentials by reference to role**

The table below shows the internal ratio between the salaries of the finance director and other executive director positions as a percentage of the chief executive's salary. These percentages remain broadly consistent with the previous year.

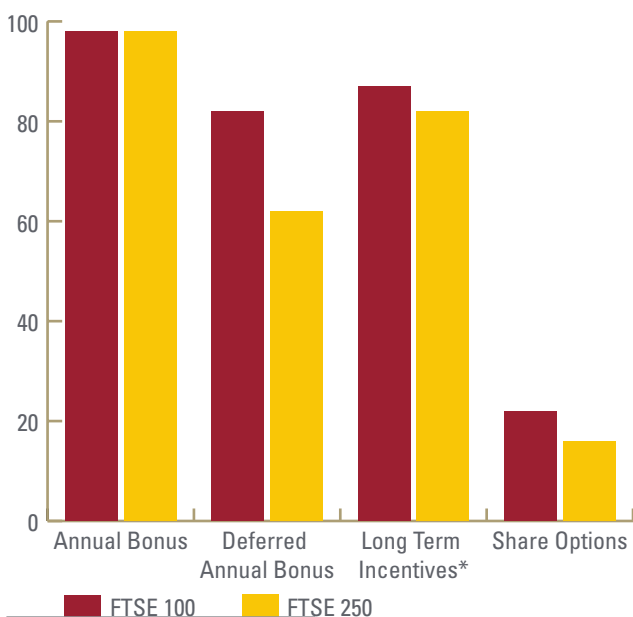
**FTSE 350 Internal ratio of finance director and other executive directors salary expressed as a percentage of the chief executive's salary**

		Lower quartile	Median	Upper quartile
FTSE 100	Finance Director	56%	60%	68%
	Other Executive Directors	52%	60%	67%
FTSE 250	Finance Director	59%	65%	73%
	Other Executive Directors	56%	64%	75%

**Incentive plan types in use**

Many companies continue to use a combination of different incentive plans, and the chart below shows those plans which were used during the period under consideration to make awards to executive directors.

**Percentage of companies**



**Annual bonus plans**

Total annual bonus payments made have again increased from 12 months ago, although the increase is less significant than from 2009 to 2010. It is also interesting to note that the levels of deferral are higher than in 2010, so even though total bonus payments have increased the increase in actual payments received is less significant and in some cases levels have reduced.

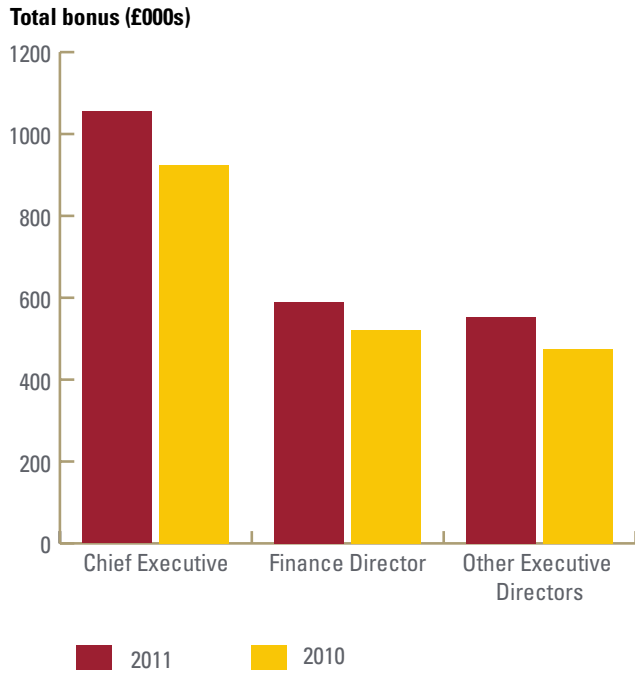
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**The number of companies with a zero bonus in 2011 is half the number we saw in 2010.**

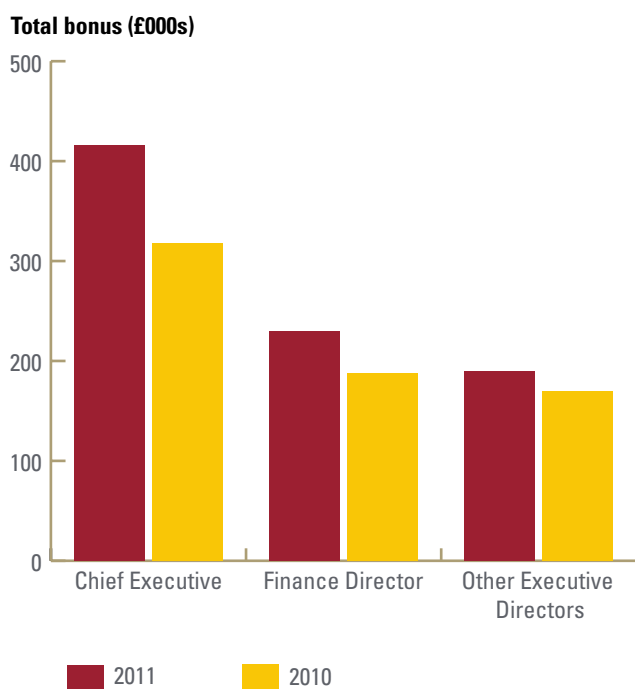
\* Long Term Incentives here include Performance Share Plans, Co-Investment Plans, Restricted Stock Plans, Long Term Cash Plans, Profit-Share Plans and individual director arrangements

The charts below show payments made in FTSE 100 and FTSE 250 companies. Both show a similar picture.

**Total bonus payouts : FTSE 100**



**Total bonus payouts : FTSE 250**

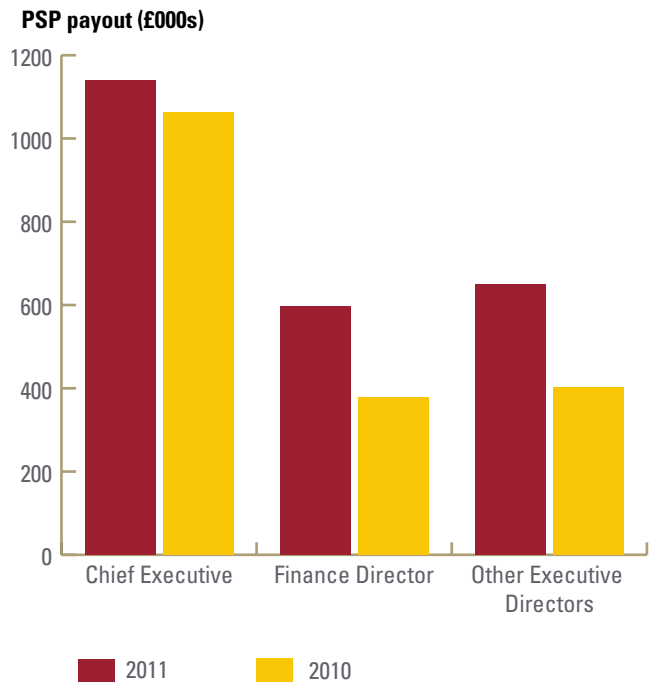


**Performance share plans**

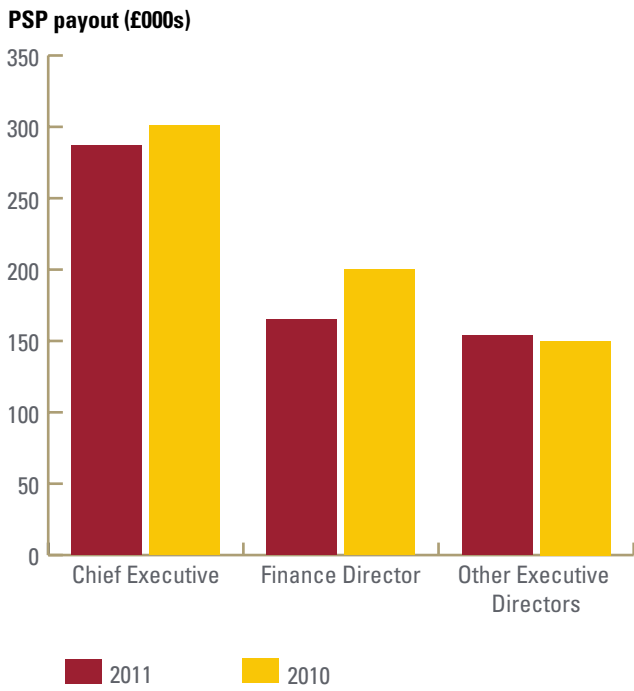
The picture is fairly similar when considering the value of actual payouts received during the year under PSPs for FTSE 100 companies, which have seen a relatively large increase across all roles. However, FTSE 250 companies have generally seen a reduction in actual payouts received under PSPs during the year.

Approximately one quarter of companies did not pay out under their PSPs during the year.

**Actual cash value of PSP awards vesting in the year as compared to 2010 FTSE 100**



**Actual cash value of PSP awards vesting in the year as compared to 2010 FTSE 250**



## Chapter 4

# Chief Executive

The level of total earnings has increased when compared to data from 2010. This is driven by bonus payments and long-term incentives.

This section provides information on the remuneration for the role of chief executive. This role represents the lead executive director at each company, so actual job titles included are chief executive officer, managing director, executive chairman, president and CEO.

The table below shows median total remuneration for FTSE 100 and FTSE 250 companies. The methodology used to calculate these figures can be found in the appendices.

#### Median total remuneration

Chief Executive	Basic salary (£000s)	Total cash (£000s)	Total earnings (£000s)
FTSE 100	825	1,994	2,702
FTSE 250	450	850	1,066

#### Basic salary

As mentioned in the overview, similar to 2010, basic salary increases have remained low, with many companies operating a pay freeze at board level. The table below shows increases in the FTSE 100 and FTSE 250 in the latest reported financial year, compared with the previous year's figures.

Chief Executive	Lower quartile		Median		Upper quartile	
	2011	2010	2011	2010	2011	2010
FTSE 100	0%	0%	2%	2%	4%	5%
FTSE 250	0%	0%	2%	0%	4%	4%

### Salary position and pay comparator groups

The size of a company is highly correlated with basic salary levels for executive directors. This can be seen from the tables below which show the basic salary levels by market capitalisation bands and also by turnover bands. Many companies use market capitalisation as a key factor when comparing salary levels, but the volatility in stock markets has shown that this can lead to unintended consequences. For example, if pay is benchmarked to a group of peer companies selected by market capitalisation in one year, subsequent falls in market capitalisation for the company concerned will then mean it appears out of line with current peers.

Turnover is generally a less volatile indicator and therefore a prudent approach would be to consider both when looking at salaries and form a view as to the appropriateness of the data.

### Basic salary by market capitalisation

Chief Executive	Market capitalisation	Lower quartile (£000s)	Median (£000s)	Upper quartile (£000s)
FTSE 100	>£10bn	897	989	1,174
	£5bn - £10bn	711	848	985
	<£5bn	480	606	748
	All FTSE 100	646	825	989
FTSE 250	>£1.5bn	430	570	668
	£500m- £1.5bn	380	455	525
	<£500m	288	354	450
	All FTSE 250	348	450	543
FTSE 350		385	510	700

### Basic salary by turnover

Chief Executive	Turnover	Lower quartile (£000s)	Median (£000s)	Upper quartile (£000s)
FTSE 100	>£10bn	893	944	1,173
	£2.5bn - £10bn	682	785	979
	<£2.5bn	481	599	785
	All FTSE 100	646	825	989
FTSE 250	>£2.5bn	534	669	798
	£500m - £2.5bn	414	520	581
	<£500m	312	377	457
	All FTSE 250	348	450	543
FTSE 350		385	510	700

### Annual bonus plans

Nearly all of the companies in the FTSE 100 and FTSE 250 operate annual bonus plans for their executive directors, making it the most common incentive arrangement.

The tables below show the following information for the FTSE 100 and the FTSE 250:

- The maximum potential bonus
- The total bonus paid as a percentage of salary
- The total bonus paid as a percentage of the maximum
- The total bonus paid in 2011 and in 2010

When compared to last year's report, maximum bonus opportunity has increased slightly in both the FTSE 100 and FTSE 250. As previously mentioned total bonus payments have increased significantly from the levels in 2010.

Chief Executive	FTSE 100			FTSE 250		
	Lower quartile	Median	Upper quartile	Lower quartile	Median	Upper quartile
Maximum bonus opportunity (percentage of salary)	150%	180%	219%	100%	110%	150%
Total bonus (percentage of salary)	101%	140%	170%	60%	96%	120%
Total bonus (percentage of maximum bonus)	60%	81%	95%	45%	77%	99%
2011 Total bonus (£000s)	722	1,055	1,589	200	408	581
2010 Total bonus (£000s)	465	925	1,376	134	318	540

The following tables show the same information split by market capitalisation bands and by turnover bands for 2011. As expected, there is a trend of higher payouts in larger companies compared to smaller ones.

### Annual bonus by market capitalisation

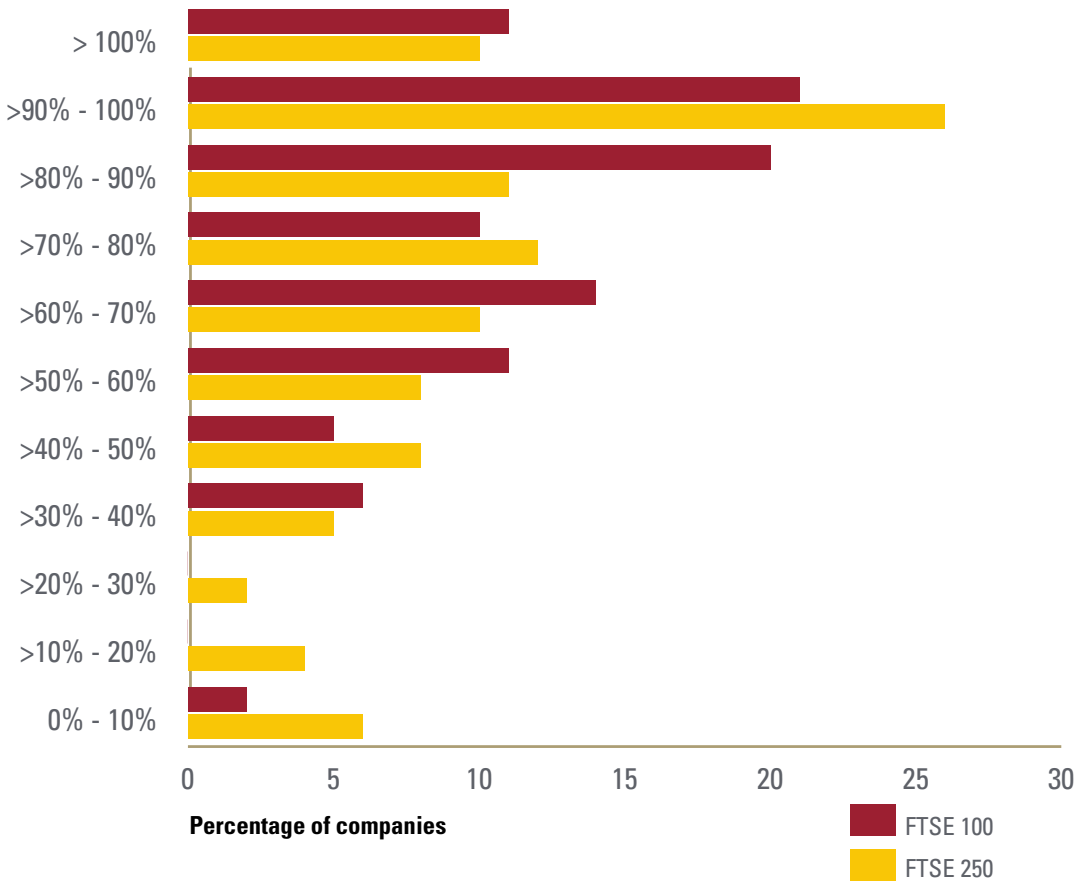
Chief Executive	FTSE 100			FTSE 250		
Market capitalisation	>£10bn	£5bn–£10bn	<£5bn	>£1.5bn	£500m–£1.5bn	<£500m
Maximum bonus opportunity (percentage of salary)	200%	165%	160%	125%	105%	100%
Total bonus (percentage of salary)	160%	137%	125%	100%	100%	65%
Total bonus (percentage of maximum bonus)	60%	58%	49%	51%	60%	40%
Total bonus (£000s)	1,564	1,078	768	540	455	253

### Annual bonus by turnover

Chief Executive	FTSE 100			FTSE 250		
Turnover	>£10bn	£2.5bn–£10bn	<£2.5bn	>£2.5bn	£500m–£2.5bn	<£500m
Maximum bonus opportunity (percentage of salary)	200%	150%	200%	125%	110%	100%
Total bonus (percentage of salary)	160%	142%	123%	96%	93%	100%
Total bonus (percentage of maximum bonus)	58%	63%	46%	54%	56%	45%
Total bonus (£000s)	1,583	1,055	750	657	489	297

The chart below shows the distribution of total bonuses (as a percentage of maximum bonus opportunity) for the FTSE 100 and FTSE 250 companies who have disclosed the maximum bonus opportunity. Approximately 50% of companies have paid 80% or more of the maximum bonus opportunity which is perhaps not surprising when we consider the increase in total bonus payments seen this year, although it may be contrary to expectations given the economic climate.

**Percentage of maximum annual bonus paid by companies**



**Approximately 50% of companies have paid 80% or more of the maximum bonus opportunity.**



### Long term incentives

The following tables show the awards made to the chief executive under performance share plans and share option plans. Further information relating to the design and structure of long-term incentives is given in chapters 9 -11.

### Performance share plans

The tables below show the following information for 2011:

- The actual awards made (i.e. the face value of shares conditionally awarded) both as a percentage of salary and a monetary amount
- The maximum award as a percentage of salary where this is disclosed

When looking at both the FTSE 100 and FTSE 250 there has been a significant increase in the level of grants under PSPs when compared to 2010.

Chief Executive	FTSE 100			FTSE 250		
	Lower quartile	Median	Upper quartile	Lower quartile	Median	Upper quartile
Maximum award (percentage of salary)	150%	200%	281%	100%	150%	200%
Actual award (percentage of salary)	177%	204%	321%	100%	124%	192%
Actual award (£000s)	1,239	1,734	3,179	417	605	961

The same information is shown below for market capitalisation and turnover bands.

### PSP awards by market capitalisation

Chief Executive	FTSE 100			FTSE 250		
	>£10bn	£5bn–£10bn	<£5bn	>£1.5bn	£500m–£1.5bn	<£500m
Maximum award (percentage of salary)	250%	200%	200%	175%	150%	100%
Actual award (percentage of salary)	275%	223%	200%	149%	127%	102%
Actual award (£000s)	2,521	1,800	1,260	853	620	491

### PSP awards by turnover

Chief Executive	FTSE 100			FTSE 250		
	>£10bn	£2.5bn–£10bn	<£2.5bn	>£2.5bn	£500m–£2.5bn	<£500m
Maximum award (percentage of salary)	250%	200%	175%	175%	145%	150%
Actual award (percentage of salary)	218%	203%	201%	133%	117%	125%
Actual award (£000s)	2,260	1,697	1,052	949	581	530

### Share option plans

The table below shows the following information for share options for 2011:

- The actual awards made (i.e. the face value of shares conditionally awarded) both as a percentage of salary and a monetary amount
- The actual gains made from the exercise of share options during the year both as a percentage of salary and a monetary amount

The data shows that actual grants as a percentage of salary have increased in both the FTSE 100 and FTSE 250 compared to last year. However, the sample sizes are relatively small due to the number of companies still operating option plans at the executive level and so it would be misleading to conclude too much from this.

The same small sample size proviso also applies to the data on share options overall.

Chief Executive	FTSE 100			FTSE 250		
	Lower quartile	Median	Upper quartile	Lower quartile	Median	Upper quartile
Actual grant (percentage of salary)	125%	365%	532%	100%	193%	355%
Actual grant (£000s)	897	2,105	4,878	318	796	1370
Actual gains (percentage of salary)	4%	72%	406%	30%	53%	133%
Actual gains (£000s)	33	793	4,240	137	287	526

## Chapter 5

### Finance Director



The trend identified for chief executives of increases in total earnings also applies to finance directors. Again, this is driven by bonus payments and long term incentives.

This section provides information on remuneration for the role of finance director.

The table below shows median total remuneration for FTSE 100 and FTSE 250 companies. The methodology used to calculate these figures can be found in the appendix.

#### Median total remuneration

Finance Director	Basic salary (£000s)	Total cash (£000s)	Total earnings (£000s)
FTSE 100	491	1,106	1,704
FTSE 250	284	528	622

#### Basic salary

As mentioned in the overview, basic salary increases have remained low, with many companies operating a pay freeze at board level. The table below shows increases in the FTSE 100 and FTSE 250 in the latest reported financial year, compared with the previous year's figures.

Finance Director	Lower quartile		Median		Upper quartile	
	2011	2010	2011	2010	2011	2010
FTSE 100	0%	1%	2%	3%	4%	6%
FTSE 250	0%	0%	2%	1%	5%	5%

### Salary position and pay comparator groups

The size of a company is highly correlated with basic salary levels for executive directors. This can be seen from the tables below which show basic salary levels by market capitalisation bands and also by turnover bands. Many companies use market capitalisation as a key factor when comparing salary levels, but the volatility in stock markets has shown that this can lead to unintended consequences. For example, if pay is benchmarked to a group of peer companies selected by market capitalisation in one year, subsequent falls in market capitalisation for the company concerned will then mean it appears out of line with current peers. Turnover is generally a less volatile indicator and therefore a prudent approach would be to consider both when looking at salaries and form a view as to the appropriateness of the data.

Data is shown here for 2011, when compared to the 2010 report shows increases over most market capitalisation and turnover groupings.

A breakdown of the FTSE ranks in each market capitalisation and turnover bands can be found in the methodology appendix.

### Basic salary by market capitalisation

Finance Director	Market capitalisation	Lower quartile (£000s)	Median (£000s)	Upper quartile (£000s)
FTSE 100	>£10bn	530	648	719
	£5bn - £10bn	422	536	575
	<£5bn	327	391	460
	All FTSE 100	396	491	621
FTSE 250	>£1.5bn	309	360	423
	£500m - £1.5bn	240	284	328
	<£500m	193	250	280
	All FTSE 250	230	284	335
FTSE 350	All FTSE 350	257	320	428

### Basic salary by turnover

Finance Director	Turnover	Lower quartile (£000s)	Median (£000s)	Upper quartile (£000s)
FTSE 100	>£10bn	555	642	718
	£2.5bn - £10bn	393	460	547
	<£2.5bn	326	389	468
	All FTSE 100	396	491	621
FTSE 250	>£2.5bn	320	404	436
	£500m - £2.5bn	266	302	350
	<£500m	202	244	290
	All FTSE 250	230	284	335
FTSE 350	All FTSE 350	257	320	428

### Annual bonus plans

The tables below show the following information for the FTSE 100 and the FTSE 250:

- The maximum potential bonus
- The total bonus paid as a percentage of salary
- The total bonus paid as a percentage of the maximum
- The total bonus paid in 2011 and in 2010

When compared to last year's report, maximum bonus opportunity has increased slightly in the FTSE 100 and remained stable in the FTSE 250. As previously mentioned, total bonus payments have increased significantly from the levels in 2010.

Finance Director	FTSE 100			FTSE 250		
	Lower quartile	Median	Upper quartile	Lower quartile	Median	Upper quartile
Maximum bonus opportunity (percentage of salary)	135%	160%	200%	100%	100%	150%
Actual bonus (percentage of salary)	95%	124%	156%	51%	85%	105%
Actual bonus (percentage of maximum bonus)	64%	82%	94%	47%	75%	96%
2011 Total bonus (£000s)	397	589	876	139	230	341
2010 Total bonus (£000s)	287	522	737	98	188	301



When compared to last year's report, maximum bonus opportunity has increased slightly in the FTSE 100 and remained stable in the FTSE 250.

The following tables show the same information split by market capitalisation bands and by turnover bands for 2011. As expected, there is a trend of higher payouts in larger companies compared to smaller ones.

### Annual bonus by market capitalisation

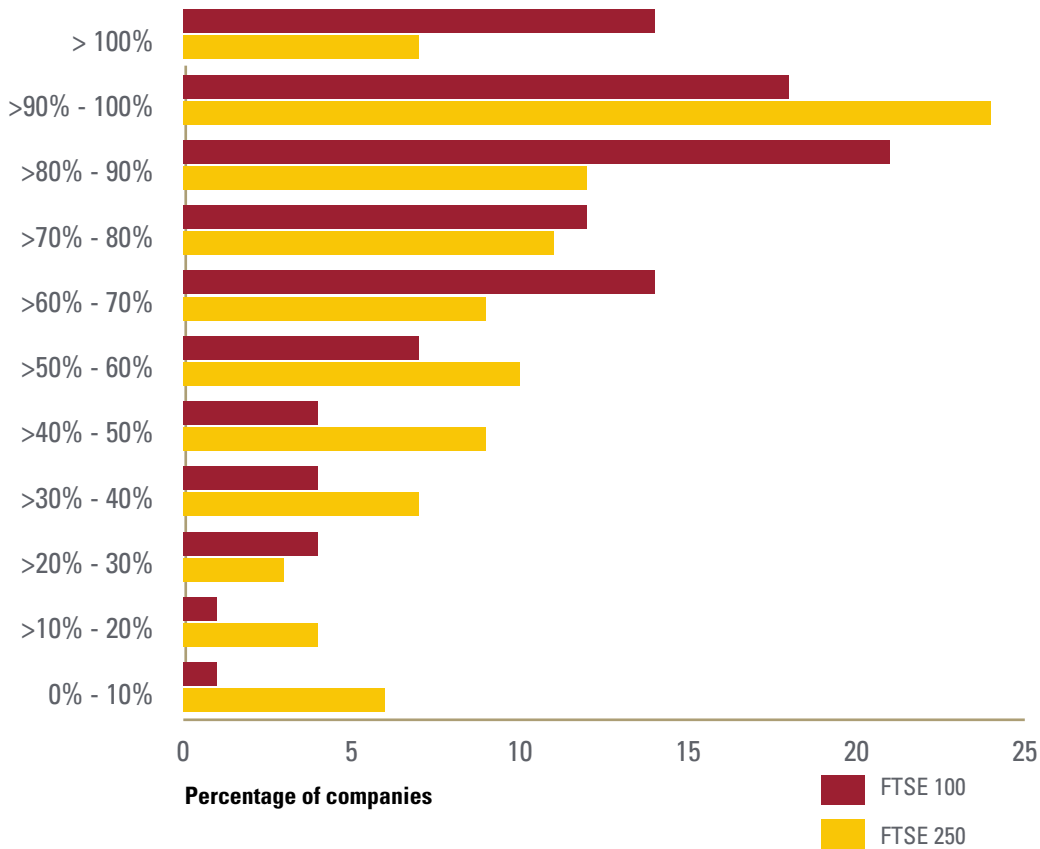
Finance Director	FTSE 100			FTSE 250		
	>£10bn	£5bn–£10bn	<£5bn	>£1.5bn	£500m–£1.5bn	<£500m
Maximum bonus opportunity (percentage of salary)	190%	150%	137%	120%	100%	100%
Total bonus (percentage of salary)	135%	141%	101%	100%	85%	51%
Total bonus (percentage of maximum bonus)	80%	86%	74%	74%	80%	50%
Total bonus (£000s)	861	680	407	320	243	120

### Annual bonus by turnover

Finance Director	FTSE 100			FTSE 250		
	>£10bn	£2.5bn–£10bn	<£2.5bn	>£2.5bn	£500m–£2.5bn	<£500m
Maximum bonus opportunity (percentage of salary)	180%	150%	150%	108%	100%	100%
Total bonus (percentage of salary)	141%	127%	109%	66%	88%	82%
Total bonus (percentage of maximum bonus)	83%	83%	69%	59%	71%	80%
Total bonus (£000s)	853	535	433	294	266	181

The chart below shows the distribution of total bonuses (as a percentage of maximum bonus opportunity) for the FTSE 100 and FTSE 250 companies who have disclosed the maximum bonus opportunity. Approximately 50% of finance directors are receiving 80% or above of the maximum bonus opportunity.

**Percentage of maximum annual bonus opportunity paid**



**Approximately 50% of finance directors are receiving 80% or above of the maximum bonus opportunity.**

### Long term incentives

The following tables show the awards made to the finance director under performance share plans and share option plans. Further information relating to the design and structure of long-term incentives is given in chapters 9-11.

### Performance share plans

The tables below show the following information for 2011:

- The actual awards made (i.e. the face value of shares conditionally awarded) both as a percentage of salary and a monetary amount
- The maximum award as a percentage of salary where this is disclosed

As with the chief executive role, when looking at both the FTSE 100 and FTSE 250 there have been significant increases in the levels of grants under PSPs.

Finance Director	FTSE 100			FTSE 250		
	Lower quartile	Median	Upper quartile	Lower quartile	Median	Upper quartile
Maximum award (percentage of salary)	129%	200%	250%	100%	150%	200%
Actual award (percentage of salary)	150%	203%	268%	96%	109%	175%
Actual award (£000s)	672	978	1,714	250	345	573

The same information is shown below for market capitalisation and turnover bands.

### PSP awards by market capitalisation

Finance Director	FTSE 100			FTSE 250		
	>£10bn	£2.5bn–£10bn	<£2.5bn	>£1.5bn	£500m–£1.5bn	<£500m
Maximum award (percentage of salary)	200%	200%	150%	150%	140%	100%
Actual award (percentage of salary)	245%	203%	151%	126%	113%	102%
Actual award (£000s)	1,569	1,076	655	471	328	289

### PSP awards by turnover

Finance Director	FTSE 100			FTSE 250		
	>£10bn	£2.5bn–£10bn	<£2.5bn	>£2.5bn	£500m–£2.5bn	<£500m
Maximum award (percentage of salary)	200%	200%	121%	150%	129%	150%
Actual award (percentage of salary)	241%	201%	144%	118%	100%	125%
Actual award (£000s)	1,488	941	600	479	339	311

### Share option plans

The tables below show the following information for share options for 2011:

- The actual awards made (i.e the face value of shares conditionally awarded) both as a percentage of salary and a monetary amount
- The actual gains made from the exercise of share options during the year both as a percentage of salary and a monetary amount

The data shows that actual grants as a percentage of salary have decreased slightly in the FTSE 100 and increased slightly in the FTSE 250 when compared to last year's report. However, the sample sizes are relatively small due to the number of companies still operating option plans at the executive level and so it would be misleading to conclude too much from this.

The same small sample size proviso also applies to the data on share options overall.

Finance Director	FTSE 100			FTSE 250		
	Lower quartile	Median	Upper quartile	Lower quartile	Median	Upper quartile
Actual grant (percentage of salary)	105%	273%	407%	75%	150%	276%
Actual grant (£000s)	492	1,209	2,663	182	509	761
Actual gains (percentage of salary)	33%	125%	415%	19%	79%	180%
Actual gains (£000s)	295	853	1,534	59	265	494

## Chapter 6

### Other Executive Directors



Other executive directors include a variety of roles with different responsibilities, including functional and divisional directors. We have seen total earnings increase as compared to last year despite marginal basic salary increases.

This section provides information on the remuneration for the role of other executive directors.

The table below shows median total remuneration for FTSE 100 and FTSE 250 companies. The methodology used to calculate these figures can be found in the appendix.

#### Median total remuneration

Other Executive Directors	Basic salary (£000s)	Total cash (£000s)	Total earnings (£000s)
FTSE 100	483	1,093	1,626
FTSE 250	273	470	554

#### Basic salary

As with other executive positions, basic salary increases have remained low, with many companies operating a pay freeze at board level. The table below shows increases in the FTSE 100 and FTSE 250 in the latest reported financial year, compared with the previous year's figures.

	Lower quartile		Median		Upper quartile	
	2011	2010	2011	2010	2011	2010
Other Executive Directors						
FTSE 100	0%	0%	2%	3%	5%	6%
FTSE 250	0%	0%	3%	1%	5%	6%

### Salary position and pay comparator groups

The size of a company is highly correlated with basic salary levels for executive directors. This can be seen from the tables below which show basic salary levels by market capitalisation bands and also by turnover bands. Many companies use market capitalisation as a key factor when comparing salary levels, but the volatility in stock markets has shown that this can lead to unintended consequences. For example, if pay is benchmarked to a group of peer companies selected by market capitalisation in one year, subsequent falls in market capitalisation for the company

concerned will then mean it appears out of line with current peers. Turnover is generally a less volatile indicator and therefore a prudent approach would be to consider both when looking at salaries and form a view as to the appropriateness of the data.

A breakdown of the FTSE ranks in each market capitalisation and turnover bands can be found in the methodology appendix.

### Basic salary by market capitalisation

Other Executive Directors	Market capitalisation	Lower quartile (£000s)	Median (£000s)	Upper quartile (£000s)
FTSE 100	>£10bn	506	621	763
	£5bn-£10bn	352	468	587
	<£5bn	300	340	409
	All FTSE 100	350	483	633
FTSE 250	>£1.5bn	300	347	450
	£500m-£1.5bn	200	250	306
	<£500m	181	240	321
	All FTSE 250	210	273	337
FTSE 350	All FTSE 350	235	323	450

### Basic salary by turnover

Other Executive Directors	Turnover	Lower quartile (£000s)	Median (£000s)	Upper quartile (£000s)
FTSE 100	>£10bn	537	635	779
	£2.5bn-£10bn	326	382	534
	<£2.5bn	281	356	411
	All FTSE 100	350	483	633
FTSE 250	>£2.5bn	300	399	467
	£500m-£2.5bn	254	306	382
	<£500m	181	231	300
	All FTSE 250	210	273	337
FTSE 350	All FTSE 350	235	323	450

### Annual bonus plans

The tables below show the following information for the FTSE 100 and the FTSE 250:

- The maximum potential bonus
- The total bonus paid as a percentage of salary
- The total bonus paid as a percentage of the maximum
- The total bonus paid in 2011 and in 2010

When compared to 2010, maximum bonus opportunity has increased slightly. As previously mentioned, total bonus payments have also significantly increased from the levels in 2010.

Other Executive Directors	FTSE 100			FTSE 250		
	Lower quartile	Median	Upper quartile	Lower quartile	Median	Upper quartile
Maximum bonus opportunity (percentage of salary)	125%	150%	200%	100%	100%	150%
Total bonus (percentage of salary)	89%	114%	157%	36%	77%	101%
Total bonus (percentage of maximum bonus)	55%	77%	89%	38%	77%	96%
2011 Total bonus (£000s)	341	553	941	95	190	338
2010 Total bonus (£000s)	262	475	866	85	170	315



The following tables show the same information split by market capitalisation bands and by turnover bands. As expected there is a trend of higher payouts in larger companies compared to smaller ones.

### Annual bonus by market capitalisation

Other Executive Directors	FTSE 100			FTSE 250		
	>£10bn	>£5bn-£10bn	>£5bn	>£1.5bn	£500m-£1.5bn	<£500m
Market capitalisation	>£10bn	>£5bn-£10bn	>£5bn	>£1.5bn	£500m-£1.5bn	<£500m
Maximum bonus opportunity (percentage of salary)	200%	150%	125%	120%	100%	100%
Total bonus (percentage of salary)	125%	108%	100%	73%	87%	50%
Total bonus (percentage of maximum bonus)	77%	69%	80%	62%	66%	51%
Total bonus (£000s)	767	366	363	300	201	122

### Annual bonus by turnover

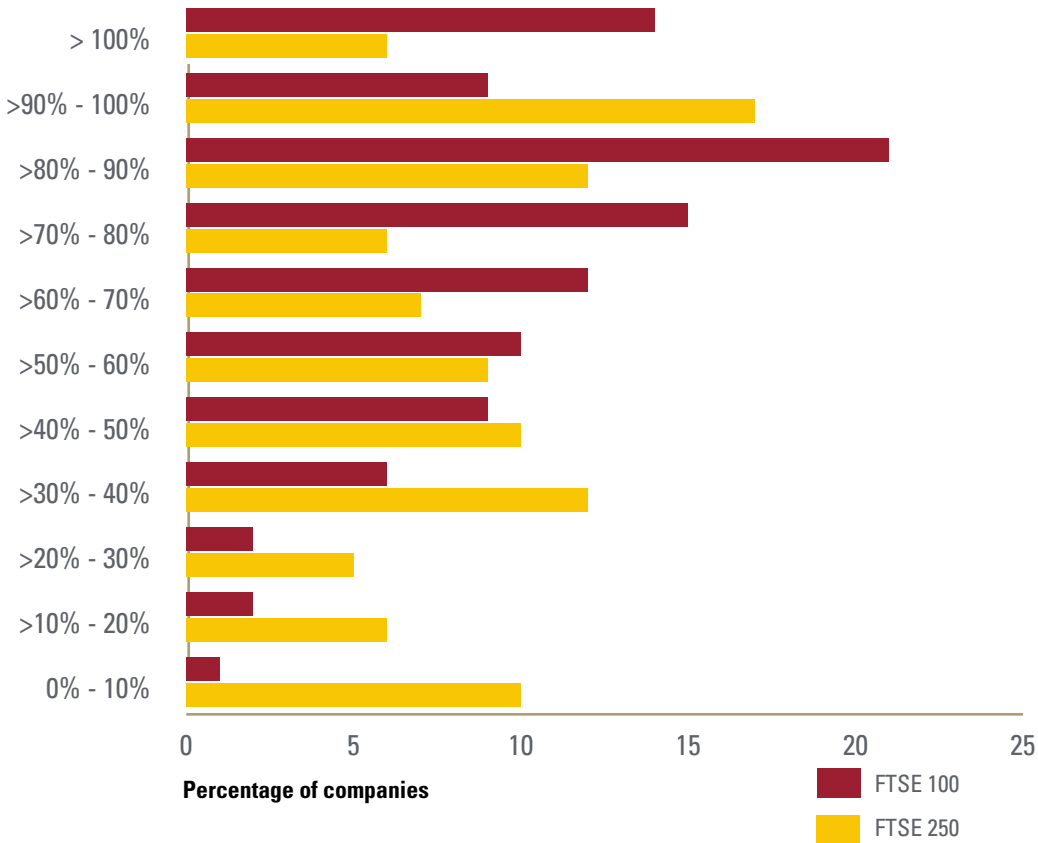
Other Executive Directors	FTSE 100			FTSE 250		
	>£10bn	£2.5bn-£10bn	<£2.5bn	>£2.5bn	£500m-£2.5bn	<£500m
Turnover	>£10bn	£2.5bn-£10bn	<£2.5bn	>£2.5bn	£500m-£2.5bn	<£500m
Maximum bonus opportunity (percentage of salary)	200%	150%	125%	118%	100%	100%
Total bonus (percentage of salary)	126%	102%	101%	52%	82%	80%
Total bonus (percentage of maximum bonus)	77%	63%	80%	46%	57%	75%
Total bonus (£000s)	769	416	358	221	231	165

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**There is a trend of higher payouts in larger companies compared to smaller ones.**

The chart below shows the distribution of total bonuses (as a percentage of maximum bonus opportunity) for the FTSE 100 and FTSE 250 companies who have disclosed the maximum bonus opportunity. Similar to the chief executives and finance directors, approximately 50% of other executives are receiving 80% or above of the maximum bonus opportunity.

**Percentage of maximum annual bonus opportunity paid**



### Long term incentives

The following tables show the awards made to other executive directors under performance share plans and share option plans. Further information relating to the design and structure of long-term incentives is given in chapters 9-11.

### Performance share plans

The tables below show the following information for 2011:

- The actual awards made (i.e. the face value of shares conditionally awarded) both as a percentage of salary and a monetary amount
- The maximum award as a percentage of salary where this is disclosed

The data show that the actual awards made in both the FTSE 100 and FTSE 250 have increased significantly from last year.

Other Executive Directors	FTSE 100			FTSE 250		
	Lower quartile	Median	Upper quartile	Lower quartile	Median	Upper quartile
Maximum award (percentage of salary)	129%	200%	250%	100%	150%	200%
Actual award (percentage of salary)	147%	202%	250%	98%	114%	155%
Actual award (£000s)	545	999	1,622	236	335	502

The same information is shown below for market capitalisation and turnover bands.

### PSP awards by market capitalisation

Other Executive Directors	FTSE 100			FTSE 250		
	>£10bn	£5bn-£10bn	<£5bn	>£1.5bn	£500m-£1.5bn	<£500m
Maximum award (percentage of salary)	200%	200%	150%	150%	140%	100%
Actual award (percentage of salary)	242%	200%	151%	126%	107%	102%
Actual award (£000s)	1,513	900	527	449	281	312

### PSP awards by turnover

Other Executive Directors	FTSE 100			FTSE 250		
	>£10bn	£2.5bn-£10bn	<£2.5bn	>£2.5bn	£500m-£2.5bn	<£500m
Maximum award (percentage of salary)	200%	200%	121%	150%	129%	150%
Actual award (percentage of salary)	241%	200%	168%	120%	100%	125%
Actual award (£000s)	1,557	866	489	487	315	312

### Share option plans

The tables below show the following information for share options for 2011:

- The actual awards made (i.e. the face value of shares conditionally awarded) both as a percentage of salary and a monetary amount
- The actual gains made from the exercise of share options during the year both as a percentage of salary and a monetary amount

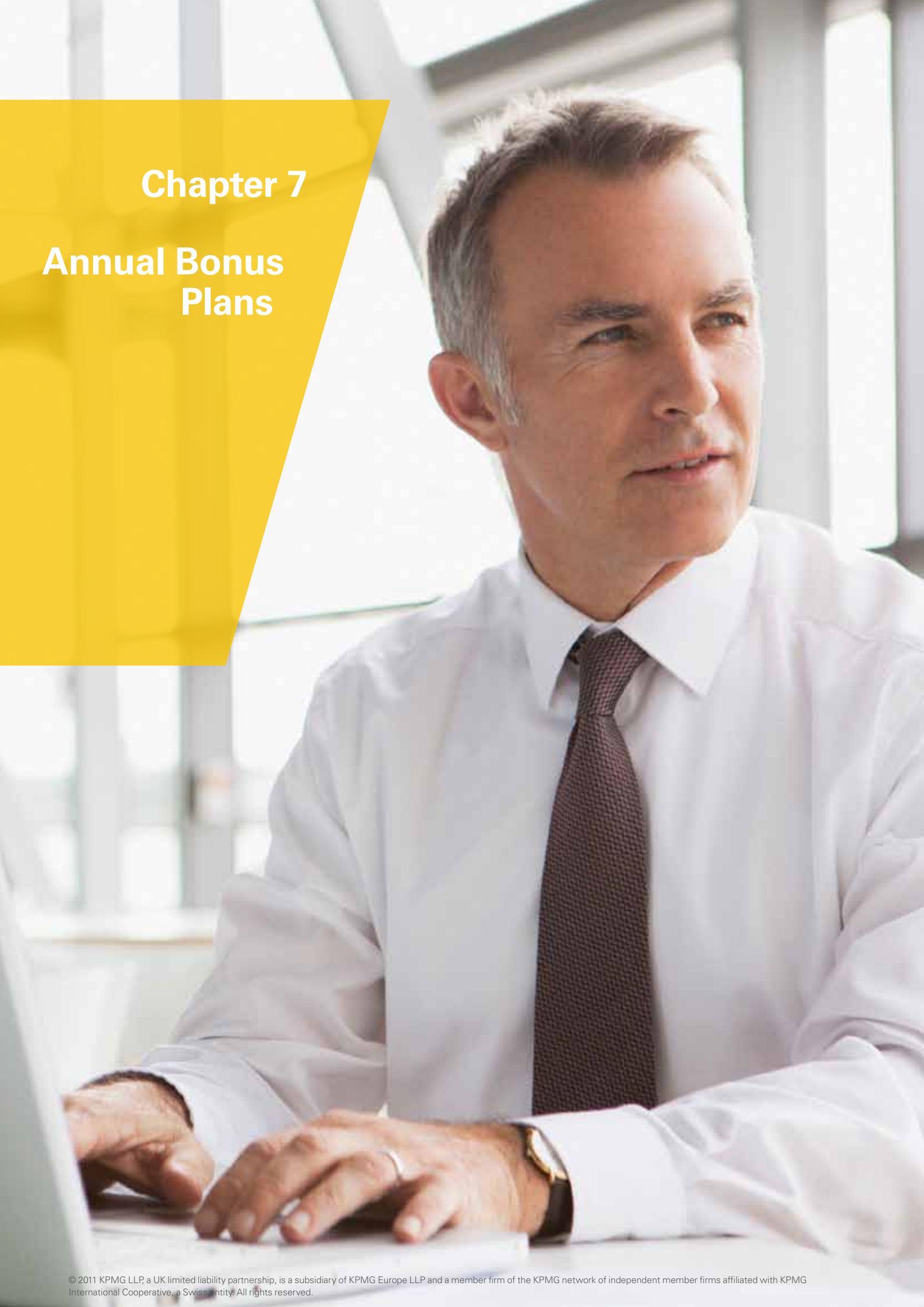
The data shows that actual grants as a percentage of salary have increased when compared to last year. However, the sample sizes are relatively small due to the number of companies still operating option plans at the executive level and so it would be misleading to conclude too much from this.

The same small sample size proviso also applies to the data on share options overall.

Other Executive Directors	FTSE 100			FTSE 250		
	Lower quartile	Median	Upper quartile	Lower quartile	Median	Upper quartile
Actual grant (percentage of salary)	114%	196%	228%	68%	137%	274%
Actual grant (£000s)	429	1,329	1,624	160	328	700
Actual gains (percentage of salary)	54%	129%	313%	14%	58%	113%
Actual gains (£000s)	304	646	1,019	25	126	289

## Chapter 7

# Annual Bonus Plans



Annual bonuses have been a core driver of the increases in total earnings in the year. While profit measures remain common as a performance measure, we are seeing an increased use of personal performance targets.

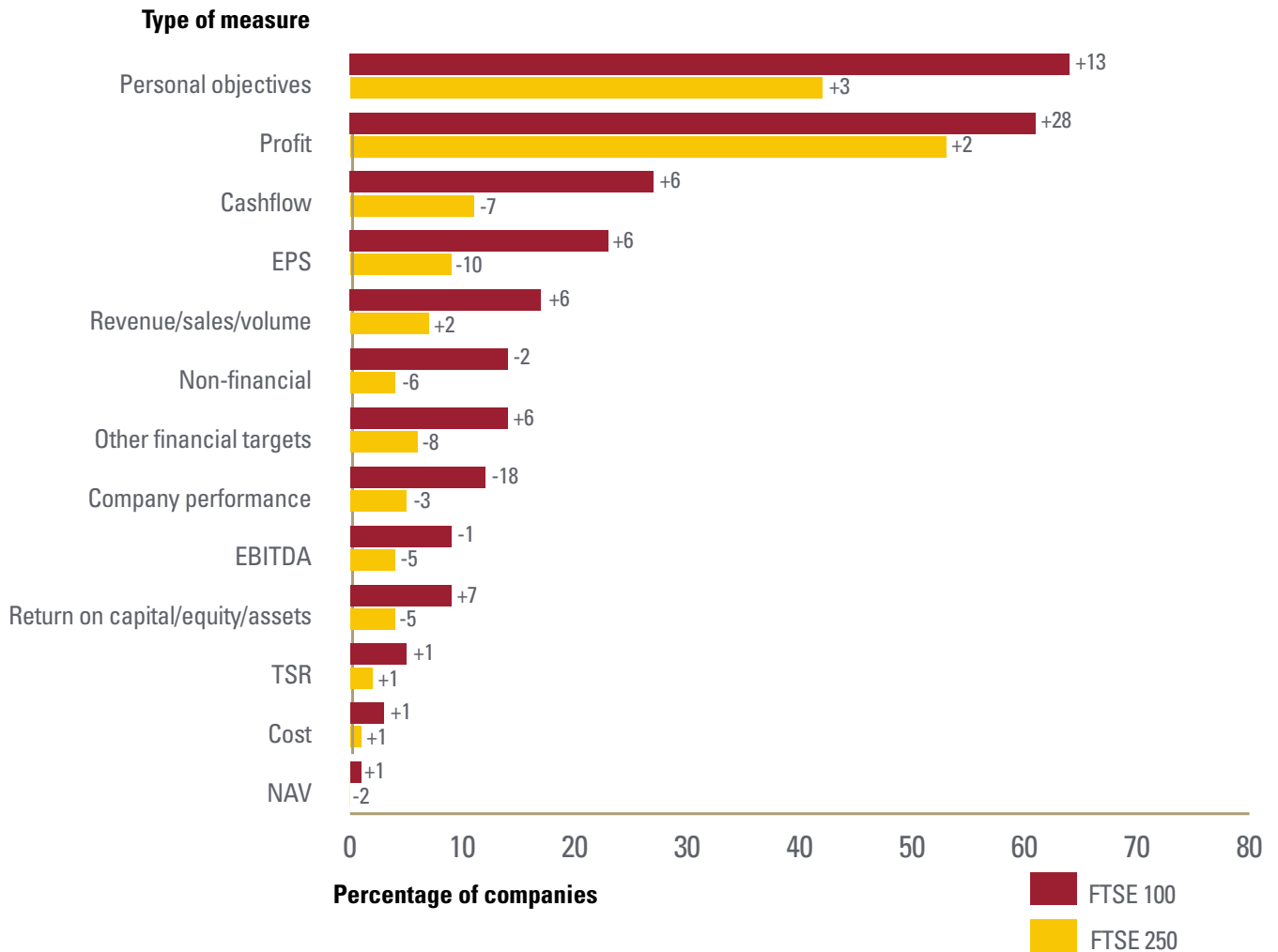
Information relating to bonus payments for each executive director role is contained in the previous sections. The following charts provide data relating to the use of performance conditions within annual bonus plans.

Data in the previous sections has shown that total bonus payments increased compared to last year. This has again been an area of focus for shareholders as they have been concerned about payments being made when targets have not been met, or where targets have been set at levels which they do not consider to be stretching. The quality of disclosure in respect of annual bonus plans varies but in general it remains unclear for many companies exactly how payments have been calculated against the targets set. There are often good reasons of commercial sensitivity for this lack of clarity in disclosure, and it makes it difficult to conduct precise analysis. However, based on the information which is disclosed, it does appear that there has been an increase in the use of personal objectives and profit targets.



The table below illustrates performance measures typically used in FTSE 350 companies. The totals are greater than 100 percent given the frequent use of multiple performance measures.

**Performance conditions in annual bonus plans 2011**

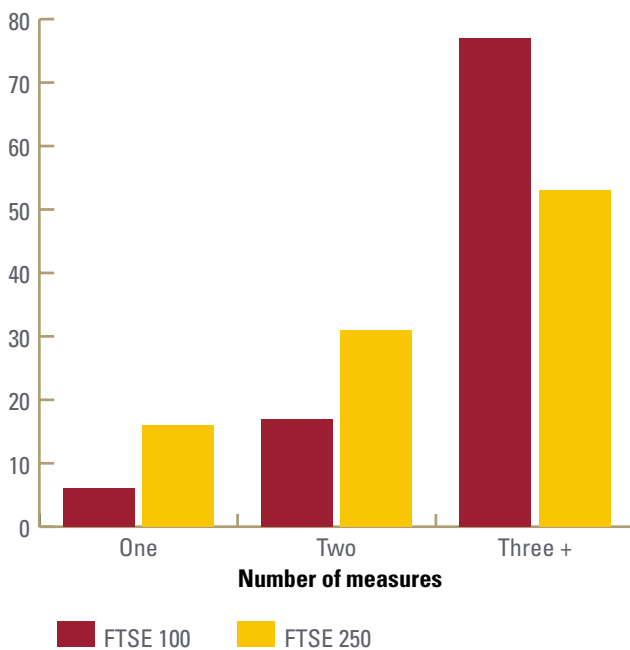


**The use of multiple measures remains common, with a majority of FTSE 100 and FTSE 250 companies using three or more measures for their annual bonus plans.**

The use of multiple measures remains common, with a majority of FTSE 100 and FTSE 250 companies using three or more measures for their annual bonus plans. A total of 303 measures were used by the FTSE 100 and 522 measures were used by the FTSE 250.

### Number of measures in annual bonus plans

#### Percentage of companies



The most common combination of performance measures is some form of profit measure in conjunction with personal performance.

This use of a combination of measures fits with good practice and helps to ensure that a balanced approach is taken, focus on a single measure can be considered in some instances to have driven unwanted behaviour. However, from a shareholder perspective, there is a need to ensure that the financial performance of the business justifies the payment of bonuses and the use of discretion to make payments has been an area of criticism. For those companies using a combination of measures, consideration should be given to the relationship between the measures and whether there should be a minimum level of financial performance before any payment is made. In addition, the proportion of the bonus attaching to each measure is an important point for discussion.



## Chapter 8

# Deferred Annual Bonus Plans



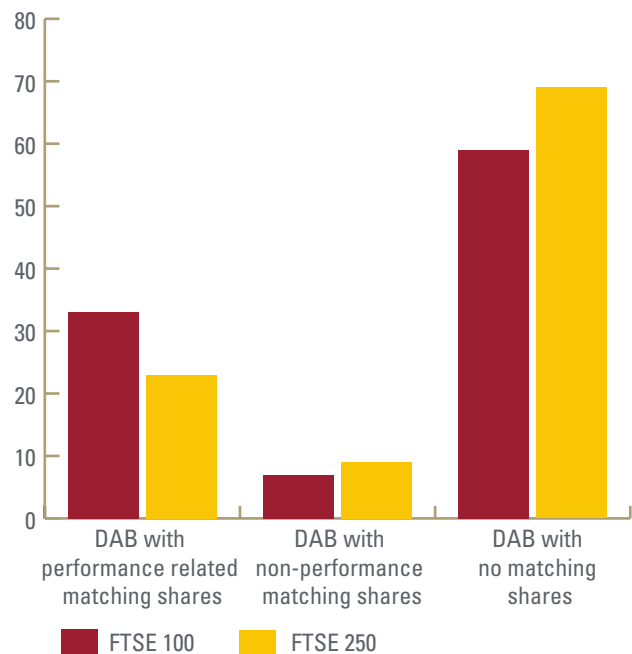
Corporate governance has emphasised the need for a deferred element to pay. Deferred annual bonus plans remain a key tool in remuneration planning.

When compared to 2010, there has been a material increase in the number of plans which have deferral of part of the annual bonus but do not provide matching shares.

The following chart shows the different types of plan which are currently in operation for the FTSE 100 and the FTSE 250.

**Type of live DAB plans in FTSE 350**

**Percentage of live DAB plans**



**A deferred annual bonus plan involves the voluntary or compulsory deferral of some or all of an annual bonus into company shares, which are then restricted for a period of time (deferred shares). Some live plans provide for matching shares, which typically vest to the extent that performance conditions are met over the performance period, most commonly three years.**

### Compulsory vs voluntary deferral

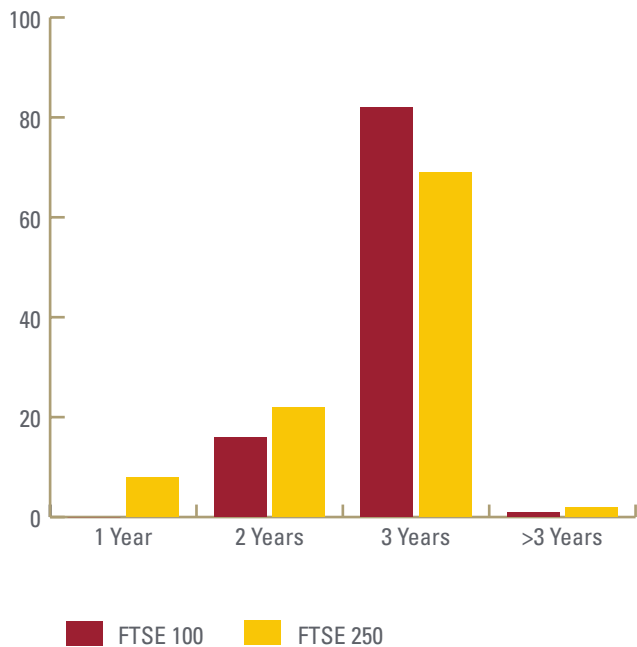
The table below shows the type of deferrals made under these plans by FTSE 100 and FTSE 250 companies.

	FTSE 100			FTSE 250		
	Voluntary deferral (% of plans)	Compulsory deferral (% of plans)	Combination of voluntary and compulsory (% of plans)	Voluntary deferral (% of plans)	Compulsory deferral (% of plans)	Combination of voluntary and compulsory (% of plans)
<b>% total plans</b>	12%	67%	21%	15%	72%	13%

### Deferral periods

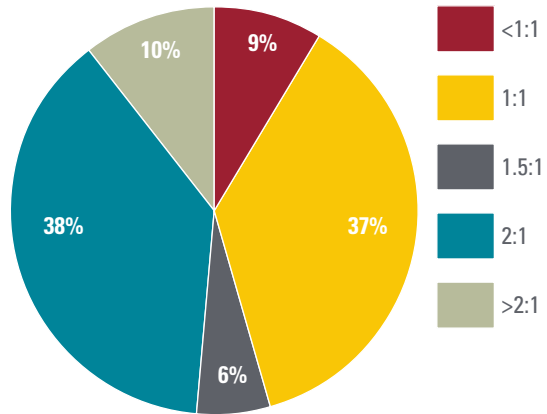
The most common deferral period remains at 3 years.

Percentage of live DAB plans



### Matching ratios

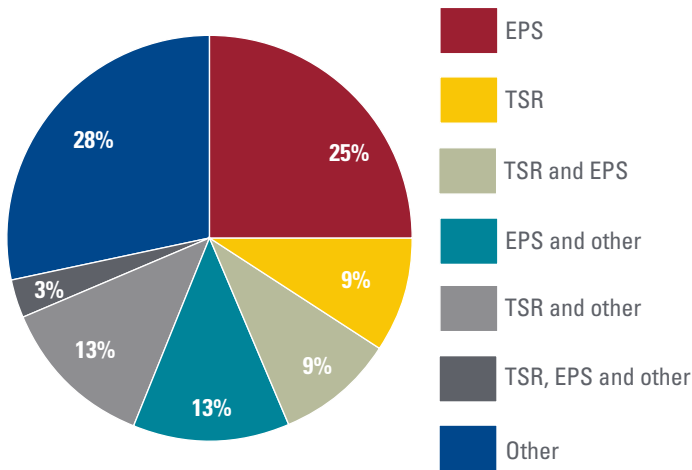
The chart below shows the maximum performance-related matching share award in FTSE 350 companies.



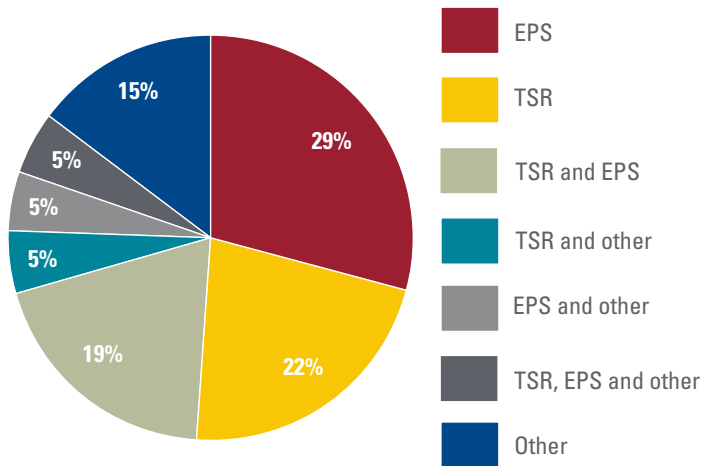
**Performance conditions**

As in previous years, EPS is the most common single performance measure used for matching shares.

**FTSE 100**



**FTSE 250**



# Chapter 9

## Performance Share Plans



Whilst there have been no significant changes in the market practice of PSPs, it appears some companies are considering a broader array of performance measures to reflect the current demands of the economy.

Information relating to awards for each executive director role is contained in the previous sections. The following section provides data relating to the use of performance conditions.

#### **Performance conditions**

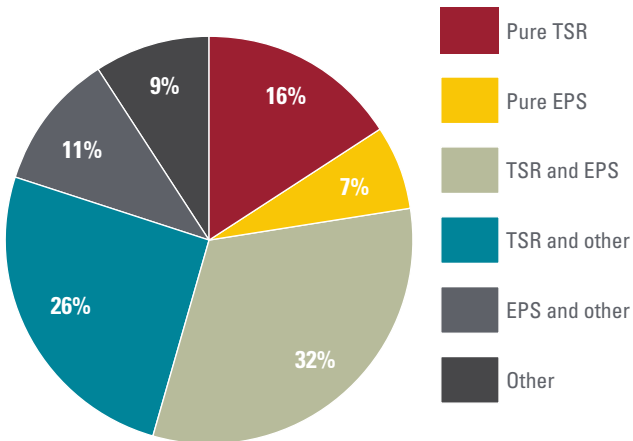
The use of some form of TSR measure remains the most common measure in both the FTSE 100 and the FTSE 250. However, the numbers are slightly down on last year with an increase in the use of 'other' measures. Other measures include profit, cashflow, turnover, share price targets, EBITDA, return on capital, economic profit, asset and debt measures.

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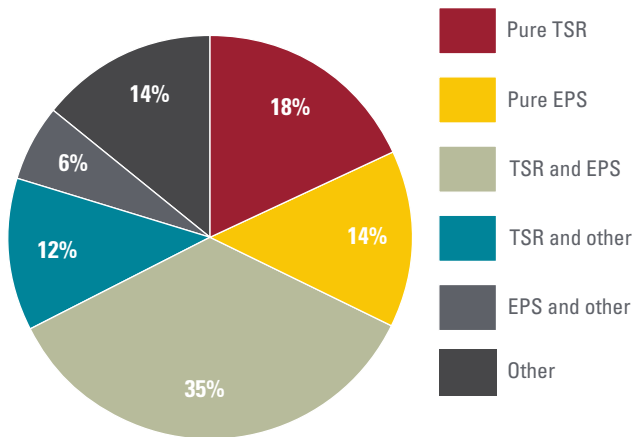
**Performance share plans are long-term incentive plans that deliver free shares to participants at the end of a specified performance period, commonly three years. Awards are often structured as conditional rights to acquire shares on vesting or as nil-cost options and, as such, are whole share awards as opposed to upside-only awards; such are market value share options. Awards vest at the end of the performance period to the extent that specified performance conditions have been achieved.**

The following charts show the measures that are currently in use.

**FTSE 100**



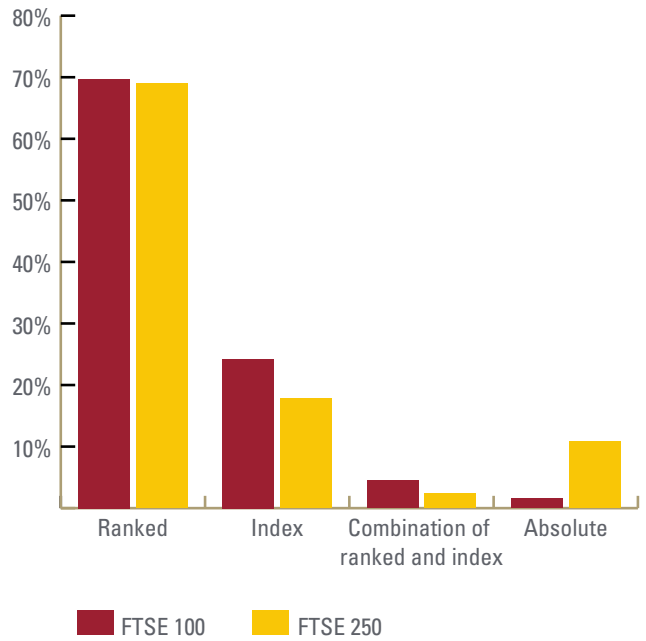
**FTSE 250**



**Use of TSR as a performance measure**

The majority of companies using TSR do so on a comparative basis, and a traditional ranking approach against a group of peer companies remains the most common methodology. However, a number of companies measure outperformance against an index, (for instance the outperformance of the FTSE 250 index) particularly in the FTSE 100, as shown in the chart below. A small number of companies use absolute TSR.

**TSR Targets**



### Relative TSR performance for maximum award

The table below shows the level of performance required for full vesting under the plan, reflecting the best practice principle that full vesting should not occur below the upper quartile.

In almost every plan where TSR is ranked against a comparator group, the TSR of the company must be at least median of the comparator group before any part of the award vests.

	FTSE 100	FTSE 250
>90th percentile	2%	0%
90th percentile	11%	10%
76th–89th percentile	26%	13%
75th percentile	61%	76%
<75th percentile	0%	1%

### Relative TSR comparator group

For those companies using a ranking approach the majority of FTSE 100 companies use a bespoke peer group. In the FTSE 250, practice is evenly split between this approach and using a broad FTSE index (such as the FTSE 250 index).

	FTSE 100	FTSE 250
Broad	23%	48%
Sector/bespoke	62%	47%
Combination	15%	5%

# Chapter 10

## Share Option Plans



The use of share options continues to fall, although approved company share option plans are widely used at lower levels to deliver tax efficient reward.

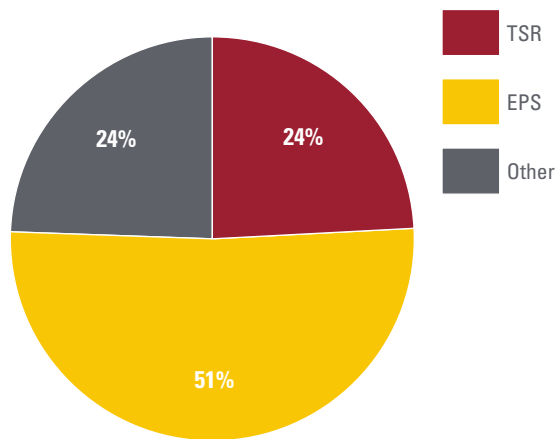
Information relating to awards for each executive director role is contained in the previous sections. The following section provides data relating to the use of performance conditions.

**Performance conditions**

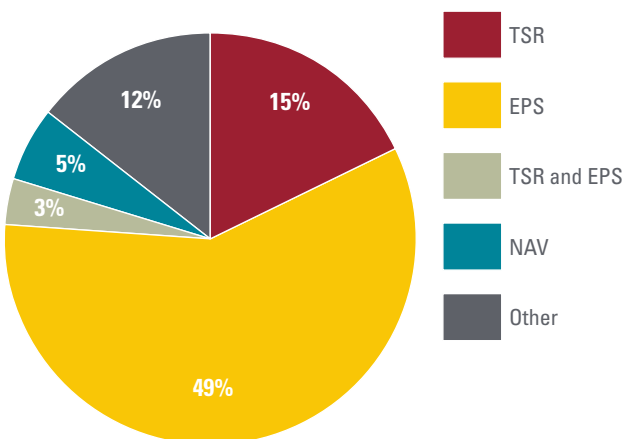
EPS remains the most common performance measure for use in conjunction with options for both the FTSE 100 and the FTSE 250.

The charts below show market practice for 2011.

**FTSE 100**



**FTSE 250**



It remains common practice for awards to vest based on a sliding scale of performance rather than cliff vesting. It is important that the vesting schedule adopted by each company is based on forecasts and matches with shareholder expectations, rather than being based on what other companies are doing. We have seen evidence of companies reducing the level of achievement needed for maximum vesting, but it is more difficult to justify reducing the level for minimum vesting when expectations may be for flat performance or even a deterioration. Shareholders are unlikely to be supportive of long-term incentive plans paying out for this level of achievement.

**A share option is the right to buy a certain number of shares at a fixed price at a future date. This exercise price is typically equal to the market price of the underlying share on the date the option is granted. An employee realises value from a share option to the extent that the share price on the date of exercise exceeds the exercise price. Vesting of the option – and so the right to exercise it – will, with almost all awards to executive directors of FTSE 350 companies, depend on meeting a specified performance condition, with real EPS growth the most common measurement.**

# Chapter 11

## Other Plans



A small minority of FTSE 350 companies operate other types of plan such as co-investment plans and long-term cash plans and these are briefly considered in this section.

### Co-investment plans

Co-investment plans allow executives to invest their own funds in the company's shares in return for an added earnings opportunity. Confusingly, deferred bonus plans providing matching shares are sometimes also referred to as co-investment plans but for the purposes of this guide we refer to co-investment plans where executives invest funds derived from a source other than annual bonus.

Although some of the co-investment plans in place allow participants to invest significant amounts, there is no real pattern of typical minimum or maximum investments. This reflects the diversity of these plans and factors such as individual affordability and rollovers from other plans.

### Matching share awards under co-investment plans

Companies usually provide additional matching shares under co-investment plans subject to the satisfaction of performance conditions. Performance is typically measured on a sliding scale, with the number of matching shares rising as performance improves.

The match provided by companies typically varies between one and three times the initial investment, although a few companies provide a higher match of the initial investment if the performance target is achieved in full.

TSR is the most common performance condition used in co-investment plans among FTSE 350 companies. In some cases this is combined with or underpinned by another target, typically EPS. The most common performance period is three years.

### One-off arrangements or awards

When a company seeks to introduce a new arrangement outside the ongoing remuneration framework for executive directors, this is often done against the backdrop of special circumstances such as change of strategic direction or business turnaround, sometimes accompanied by a change in the senior management team.

We continue to see a small number of one-off plans being implemented. These are generally linked to increasing market value over a period of time, and providing a share of the increase to participants. It is difficult to say how many one-off arrangements have been introduced in 2011 since some may have been adopted without shareholder approval.

### Long-term cash plans

Typically a long-term cash plan involves a predetermined bonus pool being paid out in cash, contingent upon the achievement of specified performance conditions.

In appropriate circumstances long-term cash based plans can be an effective motivational tool as they allow for considerable design flexibility and have the advantage of not impacting upon share dilution limits. However, as the reward is paid out in cash, such plans are generally more costly in both cash and accounting terms, and they remain uncommon.

Only a handful of FTSE 350 companies currently operate long-term cash plans. Although there has been a slight decrease in the prevalence of long-term cash plans, many plans are designed specifically for certain individuals or are one-off arrangements designed to incentivise executives over a specific period. Some will reflect tax and regulatory limitations overseas (and awards made under share plans are sometimes also cash settled for these reasons).

## Chapter 12

# Non-Executive Directors



This section provides information on the remuneration for the role of non-executive director, including committee fees.

### Fee increases

Traditionally, non-executive director fees were not reviewed annually; it was more common to review fee levels every two or three years. As we noted last year, anecdotal evidence suggests that some companies have begun to conduct annual reviews, in line with the practice for executive directors. However, this still appears to be minority practice.

Despite the growing responsibilities of non-executive directors and the increasing scrutiny of the role, difficult economic conditions appear to have influenced company practice on fee levels. However, in 2011, the majority of FTSE 100 companies and almost half of FTSE 250 companies increased base fee levels for non-executive directors.

Where increases have been given these often reflect the fact that a review may not have been carried out for one or two previous years, and as such these may be higher than those for executives.

Unchanged fee (% of companies)		
	Chairman	Other non-executive director
FTSE 100	42%	29%
FTSE 250	54%	53%

The following table shows the fee increases for the FTSE 100 and FTSE 250 for companies which did increase fee levels. The figures are based on matched samples of individuals as a percentage of base fees.

		Lower quartile	Median	Upper quartile
FTSE 100	Non-executive chairman	5%	9%	18%
	Other non-executive director	7%	11%	27%
FTSE 250	Non-executive chairman	4%	10%	28%
	Other non-executive director	4%	8%	18%

### Non – executive chairman

The chairman is responsible for the leadership of the board, ensuring effectiveness in all aspects of its role and setting its agenda. The chairman has ultimate responsibility for the board and so has a role distinct from that of the other non-executive directors. In some companies this may be close to a full-time role. Consequently, there is typically a significant fee differential between the chairman and other non-executive directors.

The following tables show the total non-executive chairman fees broken down by market capitalisation, turnover and industry, inclusive of any committee fees and irrespective of time commitment. As would be expected, those chairing the largest companies are paid significantly more than those in companies in lower bands.

### Chairman fees by market capitalisation

	Market capitalisation	Lower quartile (£000s)	Median (£000s)	Upper quartile (£000s)
FTSE 100	>£10bn	370	570	675
	£5bn - £10bn	300	350	413
	<£5bn	200	270	300
	All FTSE 100	255	338	491
FTSE 250	>£1.5bn	152	227	271
	£500m - £1.5bn	140	165	206
	<£500m	90	125	155
	All FTSE 250	134	165	225

### Chairman fees by turnover

	Turnover	Lower quartile (£000s)	Median (£000s)	Upper quartile (£000s)
FTSE 100	>£10bn	375	542	675
	£2.5bn - £10bn	265	310	381
	<£2.5bn	200	257	300
	All FTSE 100	255	338	491
FTSE 250	>£2.5bn	199	250	255
	£500m - £2.5bn	150	170	229
	<£500m	109	145	188
	All FTSE 250	134	165	225

## Median chairman fee differentials by sector

	FTSE 100		FTSE 250	
	Median fee (£000s)	Median fee differential relative to all sectors	Median fee (£000s)	Median fee differential relative to all sectors
Chemicals and pharmaceuticals	363	7%	128	-11%
Construction and building materials	361	7%	128	-11%
E-business, software and computer services	195	-42%	158	-2%
Engineering, electrical and other manufacture	300	-11%	167	1%
Finance	350	4%	168	1%
Food, drink and tobacco	433	28%	155	-3%
Media, marketing and telecommunications	475	41%	286	36%
Oil, gas and minerals	270	-20%	135	-9%
Other services	245	-28%	152	-4%
Property	318	-6%	150	-4%
Retail and distribution	413	22%	173	2%
Transport and leisure	350	4%	208	13%
Utilities	328	-3%	183	5%
All	338	0%	165	0%

## Deputy chairman and senior independent director

Most companies now identify a senior independent director (SID) which generally attracts an additional fee. The SID is responsible for leading the non-executives in their review of the chairman's performance as well as being available to shareholders so as to gain a balanced understanding of the issues and concerns they may have.

In some organisations the deputy chairman fulfils the role of the SID and over recent years the differences between the two roles have become blurred. However, based on information disclosed, the role of deputy chairman is still more likely to attract a higher premium than the role of SID. If the two roles are combined and the deputy chairman is also the SID then it is standard practice that no additional fee is paid for the SID role.

The following table shows the total fees for the position of non-executive deputy chairman for the FTSE 100 and FTSE 250.

Deputy Chairman	Lower quartile (£000s)	Median (£000s)	Upper quartile (£000s)
FTSE 100	46	88	175
FTSE 250	35	65	114

The table below shows the additional fees paid to SIDs for the FTSE 100 and FTSE 250. It should be noted this is in addition to the basic non-executive directors' fee.

Senior Independent Director	Lower quartile (£000s)	Median (£000s)	Upper quartile (£000s)
FTSE 100	10	15	25
FTSE 250	5	6	10

### Other non-executive directors

The following tables show the fees for non-executive directors who are not classified as being a chairman, deputy chairman and/or senior independent director. The figures are broken down by market capitalisation, turnover and industry, and are inclusive of any committee fees and irrespective of time commitment.

#### Non-executive director fees by market capitalisation

	Market capitalisation	Lower quartile (£000s)	Median (£000s)	Upper quartile (£000s)
FTSE 100	>£10bn	65	75	80
	£5bn - £10bn	55	60	67
	<£5bn	50	53	58
	All FTSE 100	54	60	70
FTSE 250	>£1.5bn	40	50	55
	£500m - £1.5bn	39	43	50
	<£500m	34	39	43
	All FTSE 250	39	43	50

#### Non-executive director fees by turnover

	Turnover	Lower quartile (£000s)	Median (£000s)	Upper quartile (£000s)
FTSE 100	>£10bn	62	70	78
	£2.5bn - £10bn	53	60	66
	<£2.5bn	50	55	65
	All FTSE 100	54	60	70
FTSE 250	>£2.5bn	40	49	51
	£500m - £2.5bn	40	45	51
	<£500m	36	40	48
	All FTSE 250	39	43	50

### Committee fee practice

Over recent years we have seen a continuing increase in the number of companies paying additional fees for membership and chairmanship of the main board committees. This is to compensate non-executives for the increasing responsibilities and requirements attributed to their roles.

Principally this is seen with the audit and remuneration committees. In the FTSE 350, 77% of companies disclose an additional audit committee chair fee and 73% a remuneration committee chair fee.

Around a quarter of companies disclose a committee membership fee.

### Median non-executive director fee differentials by sector

	FTSE 100		FTSE 250	
	Median fee (£000s)	Median fee differential relative to all sectors	Median fee (£000s)	Median fee differential relative to all sectors
Chemicals and pharmaceuticals	75	25%	39	-6%
Construction and building materials	62	3%	50	12%
E-business, software and computer services	58	-4%	39	-6%
Engineering, electrical and other manufacture	51	-15%	41	-3%
Finance	65	8%	48	8%
Food, drink and tobacco	73	22%	38	-8%
Media, marketing and telecommunications	64	6%	47	8%
Oil, gas and minerals	66	10%	50	13%
Other services	55	-9%	40	-4%
Property	50	-17%	41	-2%
Retail and distribution	60	0%	40	-4%
Transport and leisure	65	8%	43	1%
Utilities	56	-8%	38	-8%
All	60	0%	43	0%

The tables below show the additional fees disclosed for chairing the main committees in FTSE 100 and FTSE 250 companies.

Company size again has an influence over the level of additional fees. The audit committee still commands the

highest fee, although we have seen a significant increase in the level of other committee fees over the last couple of years. It should be noted that the nomination committee is often chaired by the company chairman, and in this situation the role is unlikely to attract additional committee fees.

### Committee chairmanship fees

FTSE 100: Committee chairmanship fee levels	Lower quartile	Median	Upper quartile
Remuneration	10	15	22
Audit	15	20	29
Nomination	5	10	15
Other	12	19	29

FTSE 250: Committee chairmanship fee levels	Lower quartile	Median	Upper quartile
Remuneration	6	8	10
Audit	7	10	13
Nomination	5	7	10
Other	8	10	11

### Committee membership fees

FTSE 100: Committee membership fee levels	Lower quartile	Median	Upper quartile
Remuneration	6	10	15
Audit	6	10	20
Nomination	5	8	10
Other	5	8	15

FTSE 250: Committee membership fee levels	Lower quartile	Median	Upper quartile
Remuneration	3	4	6
Audit	3	5	6
Nomination	2	3	6
Other	3	4	9

# Appendix 1

## Methodology & Assumptions



The analysis in this guide is based on the most recently published annual report and accounts of each company as of 2 July 2011, as analysed by Incomes Data Services.

FTSE constituents and market capitalisation figures are as at 31 March 2011 and turnover figures used for the analysis are as at the relevant reporting date for each company. All FTSE 350 investment trusts are excluded and have been replaced with the next biggest companies by reference to market capitalisation.

#### **Data sources**

Unless otherwise stated, all graphs and tables in KPMG's Guide to Directors' Remuneration 2011 have been created by KPMG, from data provided by Incomes Data Services. The data provided by Incomes Data Services has been further analysed by KPMG, using the methodology outlined below.

In our research we have been assisted occasionally by analysis done by IVIS (Institutional Voting Information Service) and Pensions & Investment Research Consultants.

#### **Median and quartile points**

For the purposes of the survey, median information has been provided where there are four data points or more.

Inter-quartile ranges have been provided where there are nine or more data points. Quartiles have been calculated according to the conventional algorithm  $K = (n+1) \times 0.25$  for lower quartile and  $K = (n+1) \times 0.75$  for upper quartile where  $n$  is the number of observations. It should be noted that this may differ from the Excel® algorithm (Excel is a registered trademark of Microsoft Corporation in the United States and other countries).

#### **Increases and comparative data for 2010**

Increases and comparative data for executive directors were calculated by matching those individuals who stayed in the same position for two whole financial years. This is approximately 70% of all positions in the FTSE 350 sample (2010: 80%). This data has been provided by Incomes Data Services.

#### **Performance shares, share options and matching shares for deferred annual bonus plans**

For the actual analysis, the face value of performance shares and options has been estimated for the individual grants using the share price on award or the exercise price of the option. Incomes Data Services provided this information.

#### **Basic salary**

Annual salary received over a 12-month period as shown in the accounts (not necessarily set at annual review).

#### **Total annual bonus**

Actual annual bonus paid plus any deferred portion of the annual bonus.

**Total cash**

Total cash for executives is the sum of basic salary, benefits and total annual bonus.

**Total earnings**

Total earnings is the sum of total cash, the cash value of any LTIP awards vested during the year and the cash value of any share options exercised during the year. Final figure may also include some miscellaneous payments not shown in the published tables. These include special payments for pensions, housing assistance, one-off bonuses for particular projects and profit share. NB Other pay elements, such as ad hoc pension payments, SAYE gains and the cash value of matched bonus from previous years may also be included in the total earnings total but are not displayed in the aggregate or landscape table. Total earnings data has been provided by Incomes Data Services.

Unless otherwise indicated, the source of all the charts is Incomes Data Services' data as analysed by KPMG.

**Market capitalisation and turnover bands**

These bands broadly cover the ranks of the FTSE 100 and FTSE 250 as follows:

**Market capitalisation (as reported in the Financial Times Top 500 list on 31 March 2011)**

- >£10bn 1 to 40
- £5bn to £10bn 41 to 60
- <£5bn 61 to 100
- >£1.5bn 101 to 150
- £500m to £1.5bn 151 to 280
- <£500m 281 to 350

**Turnover (as reported in the relevant annual accounts consolidated income statement)**

- > £10bn 1 to 30
- £2.5bn to £10bn 31 to 60
- <£2.5bn 61 to 100
- >£2.5bn 101 to 130
- £500m to £2.5bn 131 to 240
- <£500m 241 to 350

# Appendix 2

## Glossary



## A

### **ABI or Association of British Insurers**

A UK body representing the collective interests of the UK's insurance industry. The ABI operates a proxy analysis service for company AGMs/EGMs called IVIS (see below).

### **ABI Guidelines**

UK corporate governance guidelines published by the ABI. This guide refers mainly to 'ABI Principles of Remuneration' issued in September 2011 in place of the ABI's earlier guidelines on executive remuneration policies and practices.

### **Actual Value**

The monetary value of the actual awards as actually paid.

### **Annual Bonus Plan**

A variable annual incentive plan where the amount earned depends on performance measured over one year or less.

### **Approved Company Share Option Plan (CSOP)**

Company Share Option Plans (CSOP) are the most popular type of approved share scheme. Employees and directors who receive shares or share options under approved schemes can get relief from the charge to income tax as employment income and NICs that would normally arise.

## B

### **Basic Salary**

The fixed remuneration of basic salary featured in the emoluments table, as disclosed in the relevant company's annual report and accounts.

## C

### **Cliff Vesting**

Where a conditional award vests 100 percent or not at all for achieving a performance target. For example, shares which have been conditionally awarded with a performance condition of RPI + 4 percent p.a. for full vesting, with no vesting for performance below this target.

### **Co-Investment Plan**

An incentive plan whereby participants commit significant personal capital and are eligible to receive a matching award from the company that is typically linked to their original investment and the long-term performance of the company. Sometimes, but not here, synonymous with voluntary deferred annual bonus plans.

### **Combined Code**

Corporate governance recommendations combining the original Combined Code based on Cadbury, Greenbury and Hampel reports, with the recommendations of the Higgs, Smith and Turnbull reports and subsequent revisions. The Combined Code is appended to the UK Listing Rules. (See also 'UK Corporate Governance Code:')

### **Comparator Group**

A group of companies that are selected according to size, sector, geographic spread or other criteria, and used for the purpose of measuring relative performance or to benchmark a company against.

## D

### **DAB or Deferred Annual Bonus Plan**

Variable incentive plan with performance initially measured over a period of one year or less and where part or all of the bonus payment earned is then deferred for a further period of time. The Deferred Shares under a DAB may be matched with Matching Shares.

### **Deferred Shares**

The proportion of the deferred annual bonus plan that is paid in shares that are deferred over a period of time but not generally subject to additional performance conditions or other substantive vesting terms.

## E

### **EPS or Earnings Per Share**

The proportion of a company's profit allocated to each outstanding share of common stock. For instance, a company that earned £10 million last year and has 10 million shares outstanding would report earnings of £1 per share. The figure is calculated after paying taxes and after paying preferred shareholders and bondholders. This is a common measure of performance for share option plans. A number of EPS variations exist such as diluted EPS, normalised EPS, EPS before or after exceptional items and any combination of these.

### **Economic Profit**

A measure of profit performance calculated by subtracting a charge for shareholders' capital. Also known as Economic Value Added<sup>TM</sup> or shareholder value added.

**F****FSA or Financial Services Authority**

The regulator of the financial services industry in the UK. The FSA issued a revised code of practice on remuneration policies and practices in the financial sector in December 2010.

**I****IVIS or Institutional Voting Information Service**

Recommendation service for company AGMs/EGMs operated by the ABI. The service uses a system of colour coding to denote the ABI's overall view (e.g., red, amber, green, blue) on the matters brought to shareholder vote.

**L****Long-Term Cash Plan**

Long-term incentive which ultimately pays out in cash and not in shares.

**LTIP or Long-Term Incentive Plan**

Long-Term Incentive, although this is often synonymous with performance share plan.

**LTI or Long-Term Incentives**

Incentive plans where the vesting/ performance period is longer than one year, e.g., performance share plans, share options.

**Lower Quartile**

The value below which 25 percent of the data points in an ordered sample fall.

**M****Matching Shares**

Conditional shares whose value at award is based on the value of the deferred shares. Matching shares may be subject to further performance conditions that are measured over the performance period.

**Median**

The mid-point value when a sample of data points is sorted in ascending order. The median is the middle data point if the sample includes an odd number of data points or, if the number of data points is even, the median is the average of the value of the two most central points.

**N****NAPF or National Association of Pension Funds**

A UK body representing pension fund managers and trustees, whose corporate governance guidelines are the basis for RREV's research and vote recommendations.

**NAV or Net Asset Value**

Describes the value of an entity's assets less the value of its liabilities and is therefore often referred to as book value. By dividing net asset value by the number of shares outstanding you get net asset value per share.

**Nil-Cost Option**

A share option with a nominal or zero exercise price — essentially a free share — and an exercise period.

**O****Other Executive Director**

Any main board position other than the chief executive, finance director, executive chairman and the non-executive directors. This typically includes operational directors, functional directors, chief operating officers, and executive deputy chairmen.

**P****PBT or Profit Before Tax**

A profitability measure that looks at a company's profits before the company has to pay corporate income tax.

**Performance Condition**

A target, set at the outset of an incentive award, the attainment of which is required for the award to vest.

**PIRC or Pensions & Investment Research Consultants**

An independent research and advisory consultancy providing services to institutional investors on corporate governance and social responsibility.

**PSP or Performance Share Plan**

A type of long-term incentive in which participants are allocated shares or, more commonly, rights to shares, the vesting of which is subject to the satisfaction of performance targets typically measured over three years. Sometimes known as a long-term incentive plan or LTIP.

## R

### **RPI or Retail Prices Index**

An average measure of change in the prices of some 650 goods and services bought for the purpose of consumption by the vast majority of households in the UK. The Office for National Statistics publishes the latest RPI figures on a monthly basis as a proxy for UK inflation.

### **ROCE or Return on Capital**

Employed Measures the operating profit of a company as a percentage of capital employed and thus gives a measure of overall efficiency in using available resources to generate profit.

## S

### **Share Option**

For these purposes a long-term incentive that is a call option that gives a right to buy a share some time in the future at a price specified at the outset (the exercise price).

### **Sliding Scale Vesting**

Calibration of the vesting of a conditional award so that different proportions of award vest on a straight line basis or similar between performance levels.

## T

### **TSR or Total Shareholder Return**

This represents the change in share price of a quoted company over a period of time, plus dividends re-invested.

## U

### **UK Corporate Governance Code**

A new code which largely re-states the old Combined Code on Corporate Governance but with a new tone and emphasis and some re-ordering. It incorporates some but not all of the recommendations of the Walker Review of corporate governance financial institutions. The new code applies to financial years beginning on or after 30 June 2010.

### **Upper Decile**

The value below which 90 percent of the data points in an ordered sample fall.

### **Upper Quartile**

The value below which 75 percent of the data points in an ordered sample fall.



# Notes

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