

Synopsis of Cliff Weight's Speech to ICSA Corporate Governance Conference 18 March 2009

The money for the job: tackling excess pay

Is CEO pay excessive? Well, it has quadrupled in the last ten years when the stock market has dropped by almost half. This implies yes it is excessive, but performance pay is not paying out in many cases. The average CEO tenure is 6 years. Many are external hires. There is a market for CEO talent and pay reflects the laws of supply and demand. So maybe it is not excessive.

But irrespective of what I think - politicians and the public think CEO pay is excessive.

The money for the job? To understand the money for the job, you need to be clear on what the job is! It is a combination of entrepreneur and administrator. Beware of the cult of the star CEO. The Board agrees strategy and the CEO implements it. He/she should be paid for doing so.

Companies should understand the value drivers of their strategy and put these in the remuneration strategy and pay plans.

3 year relative TSR LTIP plans do not work. They encourage the wrong type of performance and culture. They encourage risky fast growth strategies and risky acquisitions (e.g. Northern Rock, Royal Bank of Scotland). Mega options and other asymmetric rewards also do not work. The way investment bankers are paid does not, in general, work. Neither does the one size fits all approach, nor does boilerplating someone else's plan.

I do not think the ABI and NAPF remuneration guidelines are working. They specifically encourage 3 year relative TSR plans, boilerplating (ticking boxes) and a cottage industry for remuneration consultants. They are too complex for the smaller companies and the big companies ignore them. I suggest they consign them to the scrap bin.

Government pay legislation has not worked in the past. It probably won't work in the future either.

However there are a number of things that do work. Companies can learn from the lessons of history.

Careful analysis of business strategy and HR strategy and many other factors is crucial to developing a successful remuneration strategy.

There are lessons to be learnt from the Private Equity industry - the chance for managers to get rich from absolute increases in the value of the business - simplicity (no relative TSR measures) and tax efficiency. Notably, the fund managers are paid on cash on cash returns above a minimum threshold and their carry awards have a very long vesting period.

Careful and detailed modelling of payouts under a wide variety of business scenarios over a lengthy time period is crucial to understanding if a complex pay program will work. 3D graphs help (4D is better!).

Bonus is good but combination of bonus and malus may be better (e.g. the UBS new pay plan).

Transparency - openness- with shareholders is recommended. The key parts of CEO pay can be explained on 1 page of A4 (see attached). Why don't companies do it? Why don't shareholders demand it?

Remember directors' pay is a window on corporate governance. If pay is not being managed properly, it is a sign that the rest of the corporate governance may be wrong.

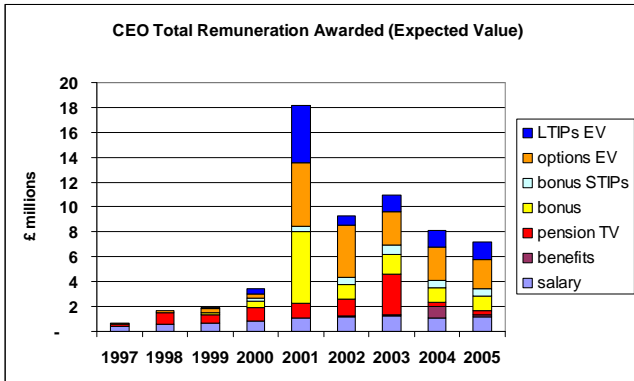
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18 March 2009

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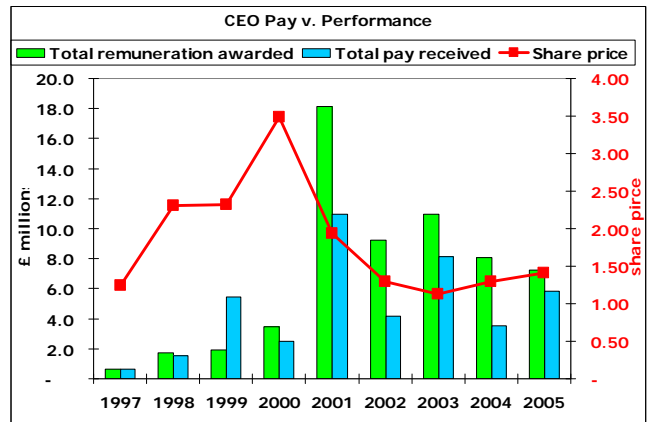
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CEO Pay Simplified ("clear, transparent and readily understandable") An example using Vodafone data up to 31st March 2005.

The estimated value of awards made by the Remuneration Committee in each year since 1997:

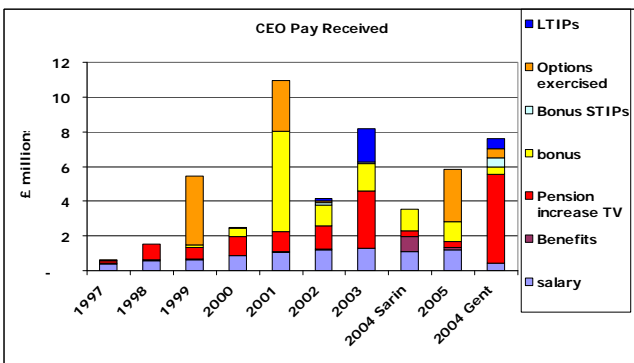


The link of pay awarded and received to performance is shown in the next two graphs.

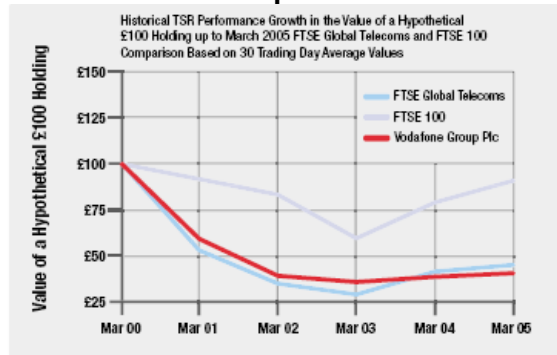


Notes: Arun Sarun appointed as CEO in 2004, Sir Christopher Gent was CEO prior to 2004 Mannesmann acquisition in 2001.

The actual amount of hard cash received, plus gains on options exercised and LTIPs and STIPs vesting in the year, plus the increase in the transfer value of accrued pension/DC contributions.



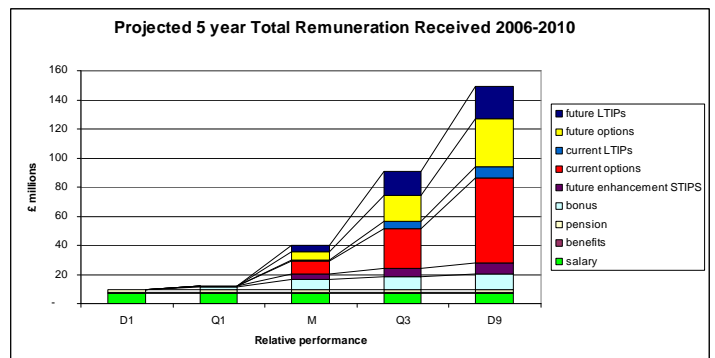
Performance Perspective



Future Potential earnings in next 5 years:

Wealth Accumulated to date (£ million)

Pension TV of accrued benefit	0.7
Shares owned	8.2
Options - unexercised gains	3.1
Subtotal	12.0
LTIPs invested (max)	5.4
STIPs invested (max)	1.4
"Total" (max)	18.8



LTIPs and STIPs are unlikely to pay out at the maximum. However the Remuneration report does not give a projection of the estimated payout on the basis of performance to date.

Assumes salary increases at 5% p.a., bonus payout at max for D9, 50% of target at median and nil at D1, standard assumptions re share price growth, TSR and vesting of performance conditions.