

EXECUTIVE PAY

Presentation to ACCA Corporate Governance and Risk Management Committee

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Agenda

1. Pay Window on Corporate Governance
2. Remuneration Trends
3. Role of the Remuneration Consultants
4. Remuneration Committee Terms of Reference
5. Non-Executive Director - Role, Risk And Reward
6. Combined Code, ABI, NAPF, PIRC etc

Window on Corporate Governance

- Process
- Performance measures



Remuneration Trends

1970s			
83% tax			
3 day week			
FT AllShare @62			

Remuneration Trends

1970s	1980s		
83% tax	30% CGT		
3 day week	Pensions Cap £60k		
FT AllShare @62	60% tax		
	40% tax		
	Privatisation		

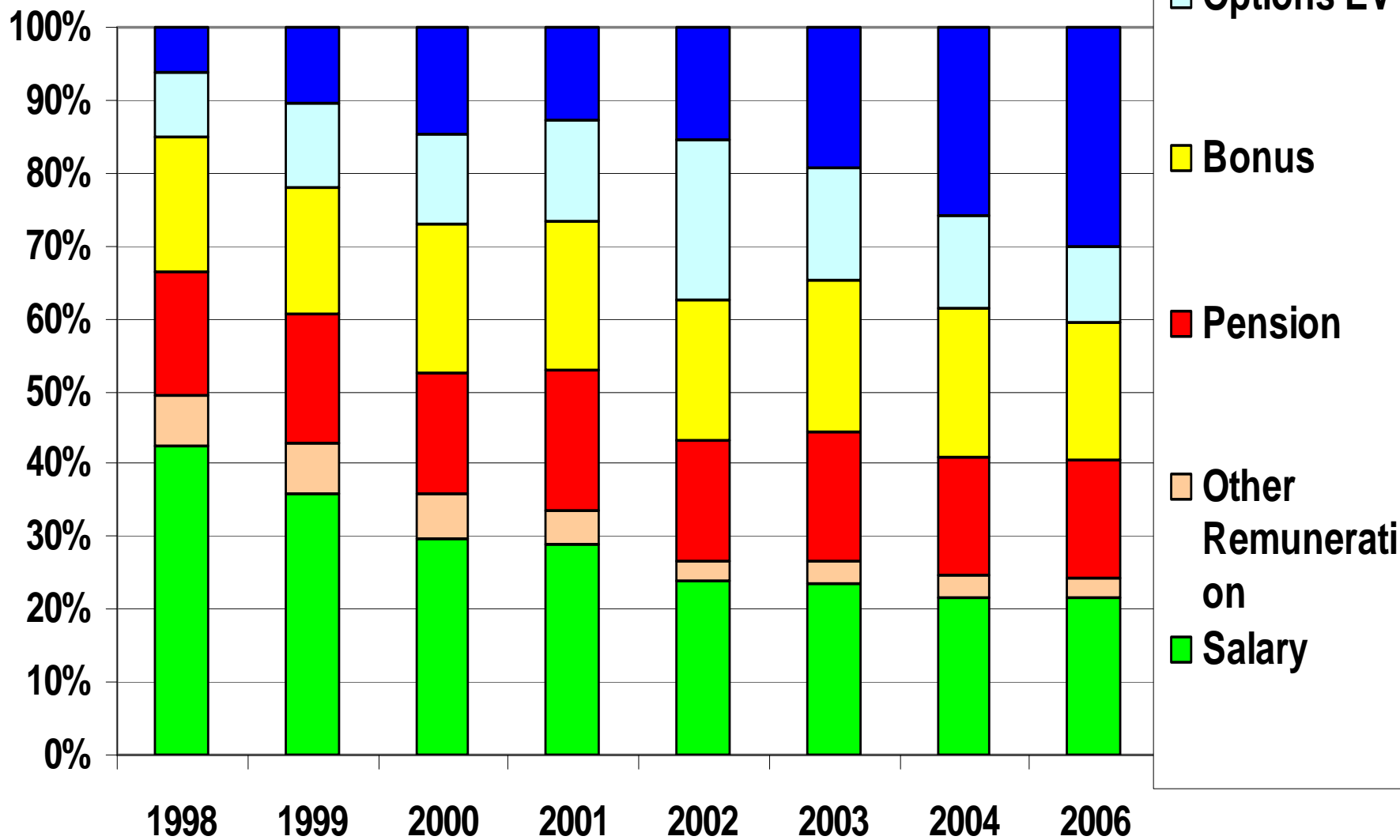
Remuneration Trends

1970s	1980s	1990s	
83% tax	30% CGT	Shareholder Value	
3 day week	Pensions Cap £60k	Bull Market	
FT AllShare @62	60% tax	Greed is Good	
	40% tax	Greenbury	
	Privatisation	LTIPs	
		More Privatisation	

Remuneration Trends

1970s	1980s	1990s	2000s
83% tax	30% CGT	Shareholder Value	.com bust
3 day week	Pensions Cap £60k	Bull Market	Enron + Worldcom ++
FT AllShare @62	60% tax	Greed is Good	Multiple Plans
	40% tax	Greenbury	£1.5m Pension LTA
	Privatisation	LTIPs	IFRS2
	International Expansion	More Privatisation	Private Equity + Hedge Funds
		Globalisation	2% + 20%

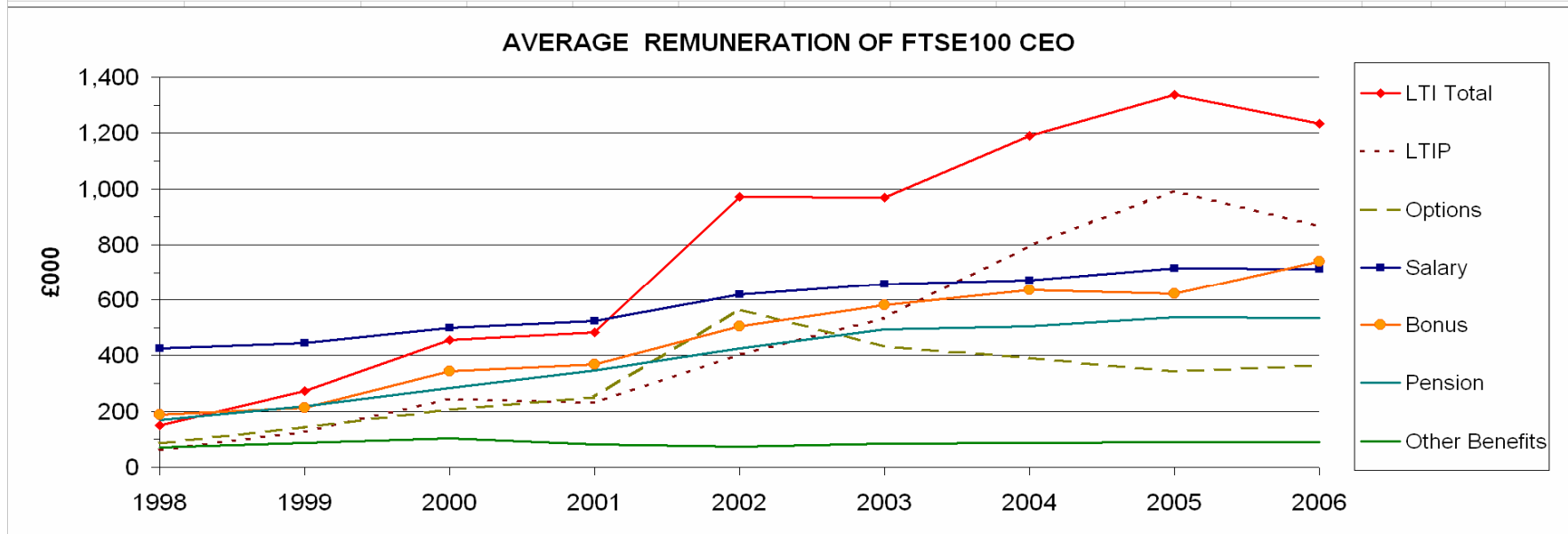
Total Remuneration Mix - Average FTSE CEO



Trends in Salary and Total Remuneration

Long term incentives may now more important than salaries. Most companies still set their award policy as a % of salary. Page 28 shows the proportion of pay at risk varies widely between companies.

In the past 8 years, salaries have raced ahead of inflation and total remuneration has grown even faster. This has been driven by the economic necessity of paying competitive rewards to attract and retain executives. Many of our largest companies operate in a global economy, with a global market for talent.



	Year	Salary	Bonus	Other Benefits	Options	LTIP	LTI Total	Total Remuneration exc. pension	Pension	Total Remuneration
Amounts in £000	1998	425	188	70	88	62	150	832	170	1,002
	1999	444	214	87	145	128	273	1,018	217	1,235
	2000	499	345	103	209	246	455	1,402	285	1,687
	2001	525	369	83	252	231	483	1,459	347	1,806
	2002	620	504	75	568	405	973	2,172	427	2,600
	2003	659	581	84	433	535	968	2,292	494	2,786
	2004	672	635	87	393	796	1,190	2,583	504	3,087
	2005	716	623	91	343	994	1,337	2,767	537	3,305
	2006	711	740	91	366	867	1,233	2,775	534	3,309
% Increases	1999	4%	14%	25%	66%	105%	82%	22%	28%	23%
	2000	13%	61%	19%	44%	93%	67%	38%	31%	37%
	2001	5%	7%	-20%	21%	-6%	6%	4%	22%	7%
	2002	18%	37%	-9%	125%	76%	102%	49%	23%	44%
	2003	6%	15%	12%	-24%	32%	0%	6%	16%	7%
	2004	2%	9%	3%	-9%	49%	23%	13%	2%	11%
	2005	7%	-2%	5%	-13%	25%	12%	7%	7%	7%
	2006	-1%	19%	0%	7%	-13%	-8%	0%	-1%	0%
	cumulative 99-06	67%	294%	30%	317%	1294%	722%	233%	214%	230%
	average p.a. 99-06	7%	19%	3%	20%	39%	30%	16%	15%	16%

Pre 2002 data includes new hires and internal promotions. 2002 and later excludes these, so may not be directly comparable.

Trends 1998-2006

- Total Remuneration increases 20% p.a.
- Salary was 42% - now 22% - of total remuneration;
 - but av. salary increases 8% - p.a.
- Variable pay - up from 33% to 59% of TR

Trends 1998-2006

- Bonus Trends
 - higher max;
 - matching and deferral;
 - non financials too; and
 - high probability of payouts

Trends 1998-2006

- Long term incentive trends
 - switch from options to LTIPs;
 - performance conditions;
 - IFRS2

Trends 1998-2006

- Pensions -
 - DB highly valuable for those who have;
 - LTA £1.5m;
 - switch to DC or cash/shares



Remuneration Committee should cover

- Just Executive Directors?
- 1 or 2 levels below Board?
- Co Sec?
- Head of Internal Audit?



Role of the Remuneration Consultants

- Executive directors have huge internal resources and pay large fees to their consultants to prepare and justify their case for more money, bigger bonuses, increased incentives and better benefits. The scales are not evenly balanced. Remuneration committees need to take the lead and appoint their own independent advisers who can comment objectively on management's proposals.
- Consultants are used to
 - provide market data,
 - provide commentary on trends, latest best practice,
 - to design new incentive arrangements, both short and long-term, and
 - to provide legal, tax and accounting advice.
- Most of the large accountancy firms have executive compensation consulting arms. For them this is a natural extension of their work in tax, share schemes, HR and audit. Most of the large actuarial firms also have executive compensation consulting arms. In their case it is a natural extension of their work in pensions, benefits and HR consulting. They are conflicted.
- There are also a small number of independent executive remuneration firms.

Consultant and Committee Issues	YES	NO
Are you happy with the objectivity of your consultants? %	87	13
Are remuneration decisions very influenced by submissions from the CEO/Director of Human Resources or other executives? %	70	30
Are the advisers part of a larger professional services firm offering fee-based advice to the group? %	27	73
In such cases do you feel the advice given is sufficiently objective and free from executive influence? %	85	15
Is any strategic/remuneration training available for committee members? %	25	75
Does the committee plan to assess its effectiveness over time? %	61	39
Would the committee probably use an outside consultant or facilitator to help them? %	17	83
Source: MM & K Survey of NEDS views - 2004		

Non-Executive Director - Role, Risk and Reward

- 28 days p.a.
- Risk, e.g. Equitable
- £1,300 per day average
- Payment in Shares?
- Payment in Options?
- How to attract good people to tough roles?

Comply or Explain?

Combined Code

ABI

NAPF

PIRC etc

Key shareholders

But can you Comply or Explain?

Relevance for small caps, AIM, unquoted, health authorities,
charities etc