Reference Guide

Executive Remuneration: Preparing for an IPO

Executive Remuneration: Preparing for an IPO

Contents

An Overview

Companies seeking an initial listing for their shares often have pre-IPO senior executive remuneration structures that are quite different from those found in the listed company environment. For example, salaries and cash bonuses are sometimes pitched below the normal PLC rate, perhaps due to substantial pre-IPO exit-focussed equity incentive grants that are likely to vest at (or shortly after) flotation. In addition, these companies must take account of the fact that the institutional shareholders they may well wish to attract on IPO will expect the executive remuneration policy to adhere to the many accepted UK PLC "best practice" principles.

These companies may also wish to introduce a share plan for their whole workforce to give all employees the opportunity to have a stake in the business going forwards.

Over the last 18 months there has been a significant focus on executive pay as a result of the economic downturn. Institutional investors – both individually and via their main representative bodies such as the Association of British Insurers and RiskMetrics (whose guidelines are summarised at Appendix 7) – have voiced concerns over "rewards for failure" and are scrutinising remuneration packages and policies like never before.

In addition, the FSA has issued new rules on pay for financial companies, with further regulation binding all fully listed companies when the new UK Corporate Governance Code (which replaces the Combined Code on Corporate Governance) comes into force for financial years beginning on or after 29 June 2010.

Therefore, there are many remuneration issues companies approaching an IPO need to consider, including:

- The appropriate level of salary for senior executives, taking account of the levels paid in similar businesses in terms of size and sector.
- The design of the annual bonus plan, including the level of potential bonuses and relevant performance metrics.
- Long-term incentive provision, taking account of the company's objectives, the vesting profile of pre-IPO incentives, market practice, investor views, share usage, accounting cost and tax implications.
- The optimum balance between fixed and variable pay and between short and long-term incentives.
- Service contract terms (in particular notice periods).
- Whether some form of specific "one-off" bonus or share award should be granted at IPO.
- The choice of all-employee share plan and how and when it should be operated.
- The level and structure of Non-Executive Directors' fees.

This guide is intended to assist companies in addressing all these pay-related issues as they prepare for their IPO, an important step in which may well be the establishment of the company's first formal Remuneration Committee (comprising independent Non-Executive Directors) which will be tasked with dealing with these matters.

Base Salary

An IPO often represents a time of significant change at Executive Director level. New Directors are frequently brought on board, while incumbent Directors take on the increased responsibilities of being a Director of a listed PLC. In addition, salary levels are sometimes lower in private companies due to the high equity stakes that are often offered to senior executives via pre-IPO share incentive awards. Many companies, therefore, review their salaries at IPO to ensure that they are appropriate for the future.

Institutional investors now tend to look closely at increases in salary levels when reviewing a company's annual Directors' Remuneration Report – a report on Board pay that all fully listed companies must include in their Report & Accounts and put to a formal (albeit advisory) shareholder vote at the AGM. Indeed, a number of the larger AIM companies voluntarily put this report to a formal shareholder vote. As a result, companies approaching an IPO (particularly on the main market) often realign salaries with those of listed companies before their pay arrangements are more publicly scrutinised.

Benchmark data is a useful tool to employ when determining appropriate salary levels. Salary and total pay vary with the size of company. Therefore, it is key that the data is sourced from companies of an appropriate size. Size is usually determined by a combination of market capitalisation and turnover (and sometimes profit).

Consideration is also often given as to whether the company is international or UK focused, as pay in international companies tends to be higher. Therefore, choosing a comparator group(s) is a key task in any benchmarking exercise. Where possible, the specific sector or business area should also be taken into account as pay practices can vary between sectors. A secondary pan-sector group is usually adopted as another reference point or cross-check.

However, external market data should only be one factor considered by Remuneration Committees when setting salary levels. It is important to take account of company-specific factors, such as the size of jobs, their complexity, individuals' experience/performance and internal relativities between roles.

Table 1 sets out salary levels in FTSE 100, FTSE 250, FTSE Small Cap and AIM 100 companies which provides companies considering a listing with information on current "market rates" for Executive Directors. While, historically, rates of salary increases for Executive Directors were higher than both inflation and salary increases for employees generally, this has changed over the last year. In response to the economic downturn, the majority of companies froze salaries in 2009 and we expect only modest increases of around 2% in 2010.

It is also interesting to note that, while Executive Director salary levels tend to be higher in listed companies compared to similar sized unlisted entities, there is less differentiation below Board level.

Table 1. Quartile Analysis of Base Salary

	FTSE 100			FTSE 250		
	LQ	M	UQ	LQ	M	UQ
Highest Paid Director	£632,000	£802,000	£949,000	£368,000	£444,000	£535,000
Finance Director	£412,000	£490,000	£600,000	£251,000	£295,000	£350,000
Other Directors	£360,000	£463,000	£563,000	£225,000	£270,000	£328,000

	FTSE Small Cap			AIM 100		
	LQ	M	UQ	LQ	M	UQ
Highest Paid Director	£267,000	£324,000	£398,000	£188,000	£228,000	£317,000
Finance Director	£183,000	£213,000	£250,000	£130,000	£170,000	£204,000
Other Directors	£180,000	£215,000	£273,000	£140,000	£168,000	£208,000

LQ = Lower Quartile; M = Median; UQ = Upper Quartile

Annual Bonus

On IPO many companies review their bonus arrangements to ensure they are appropriate in the listed environment in so far as they (i) are aligned to the post-IPO strategy of the Company and (ii) take due account of listed PLC market and best practice.

The key issues to consider when structuring a bonus plan in the listed environment are:

- The performance measures to be used.
- The calibration of targets.
- The maximum potential.
- Whether any portion of the bonus should be subject to deferral (or even "clawback").

Performance Measures

As is often the case in the private company arena, listed companies tend to use more than one performance measure in annual bonus plans; often at least two or three measures are used. Further, a considerably wider variety of measures are used in annual bonus plans than in long-term incentive plans (see later).

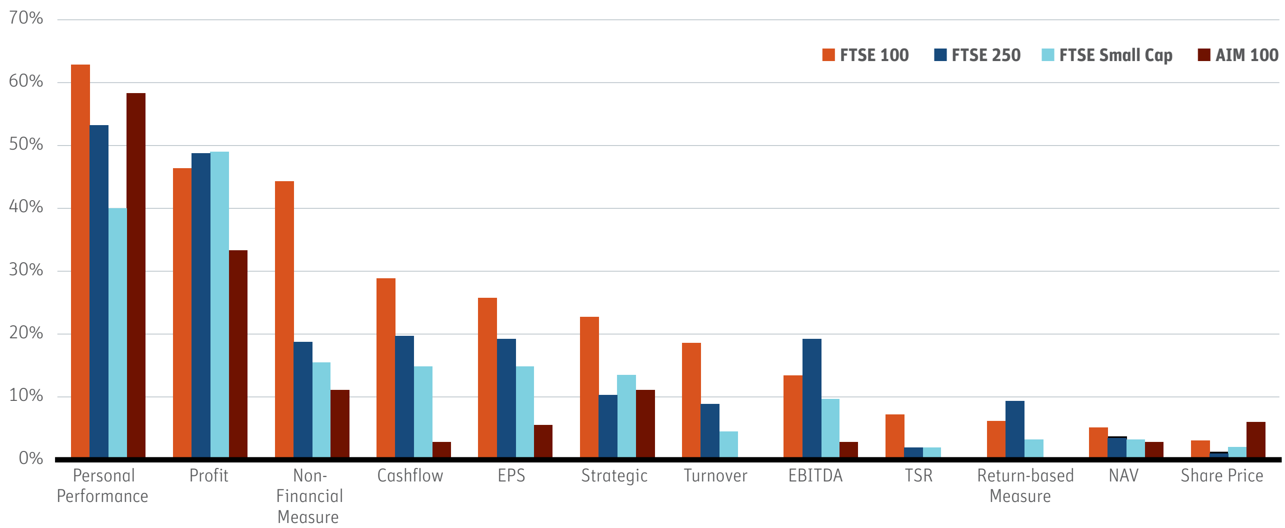
Chart 2 shows that (i) the most commonly used financial measure for listed PLCs is profit, (ii) a significant number of companies include an element of personal performance and (iii) a number also include non-financial measures.

In response to recent economic volatility, shareholders are seeking to ensure that remuneration policies do not encourage undue short-term risk-taking. While some companies (particularly financial services companies) may incorporate risk-specific and/or risk-adjusted metrics in their bonus plans, the majority are instead ensuring that risk is factored into target-setting and assuming that the remuneration package is appropriately balanced between fixed and variable pay, short and long-term incentives and between cash and shares.

The use of personal or non-financial metrics is increasing, as shareholders encourage the use of broader measures of performance. That said, typically these measures only account for 15%-25% of the bonus. In addition, such metrics are often underpinned with the requirement that a certain level of profit must be achieved before they pay out.

Listed companies are now expected to provide detailed disclosure of the nature of the metrics used for their annual bonuses (e.g. profit, EBITDA, cashflow) and how the overall bonus opportunity is apportioned between them. Therefore, a newly listed company will need to be able to justify the bonus measures they employ.

Chart 2. Performance Measures in Annual Bonus Plans



N.B. Companies may have more than one measure

Annual Bonus

Maximum Bonus Opportunity

At IPO bonus potentials sometimes increase, as pre-IPO the incentive pay weighting is often in favour of share-based, exit-focussed long-term awards. Further, in the listed environment, best practice requires a bonus maximum (almost always as a percentage of salary) to be set.

Table 3 shows a quartile analysis of the maximum bonus opportunities in different FTSE indices.

Table 3. Quartile Analysis of Bonus Opportunity (as a % of Salary)

	FTSE 100			FTSE 250		
	LQ	M	UQ	LQ	M	UQ
Highest Paid Director	125%	173%	200%	100%	100%	150%
Finance Director	120%	150%	200%	100%	100%	130%
Other Directors	120%	150%	200%	100%	100%	150%

	FTSE Small Cap			AIM 100		
	LQ	M	UQ	LQ	M	UQ
Highest Paid Director	80%	100%	100%	72%	100%	150%
Finance Director	75%	100%	100%	69%	100%	100%
Other Directors	75%	100%	100%	69%	100%	100%

While, in the majority of cases, bonus opportunity appears to be the same percentage of salary for all Directors within a company, a minority of listed companies specify a higher maximum bonus as a percentage of salary for the Highest Paid Director compared to the other Executive Directors.

As well as determining the bonus potential, it is necessary to set a threshold and target level of bonus. These levels should be set taking into account the “toughness” of the performance targets. Typically, the targets are set in relation to the budget for the year. The Remuneration Committee must be comfortable that the levels of payment will be appropriate given the performance delivered, as investors will expect to be able to see a clear link between performance and reward.

Bonus Deferral/Clawback

In unlisted companies, any bonus earned is usually paid in full in cash at the end of the relevant year. However, many listed companies (particularly larger companies) specify that part of any bonus earned must be deferred into shares for a period of time. These shares tend to be released subject to continued employment but no other performance condition (as the bonus has already been earned).

Around 60% of FTSE 100 companies specify deferral, with 40% of FTSE 250 and 25% of FTSE Small Cap also doing so (although only around 10% of AIM 100 companies disclose the operation of bonus deferral). A common level of deferral is one-third to a half of any bonus paid and the typical length of deferral is three years.

More recently, and as a reaction to the Banking crisis, a number of regulators and investors have called for companies to adopt "clawback" provisions which can force a bonus to be repaid if it later proves to have been paid on the back of materially misstated results.

IPO Transaction Bonuses

The concept of a transaction bonus for already listed companies (for example, following an acquisition) is firmly opposed by institutional investors.

However, historically at least, some companies have paid an additional bonus on IPO, which is agreed before listing, to reward executives for their efforts up to IPO. This has tended to take the form of a one-off cash payment.

That said, while the payment of IPO-related bonuses was once fairly common practice, it is now quite rare.

Table 4. Types of Long-Term Incentives

	How the plans work
Option Plans	Participants are granted options, which give them the right (but not the obligation) to buy the Company's shares at a future point in time but at a price per share (i.e. the exercise price) that is fixed at the time the option is granted. The exercise price is normally equal to the market value of the shares when the options are granted. The options are, typically, exercisable between three and ten years after they are granted, subject to the satisfaction of performance conditions and continued employment. Individuals therefore only gain to the extent the share price exceeds the exercise price. It is possible to grant HMRC "approved" options (up to a maximum of £30,000 worth of unexercised HMRC approved options per individual) which enable participants to benefit from certain tax-breaks. Certain smaller companies may also meet the requirements to operate an Enterprise Management Incentive (EMI) Scheme which again delivers awards in a more tax-efficient way.
Performance Share Plans ("PSPs")	Conditional awards of whole free shares are made that vest at the end of a set period (typically three years) subject to the satisfaction of performance conditions and continued employment.
Share Matching Plans ("SMPs")	These plans are similar to Performance Share Plans. However, under an SMP the number of free shares conditionally awarded is calculated by reference to the number of shares invested (using bonus, other monies or shares already held) and retained by the participant.
Restricted Share Schemes	Awards of free shares are made that vest at the end of a set period, subject to continued employment but no other performance conditions. These plans are rarely operated for Executive Directors of UK listed PLCs due to the lack of performance conditions (but are very common in the US). However, they are sometimes used for below Board executives.
Long-Term Cash Plans	These are similar to Performance Share Plans, but instead of rewards being delivered in shares, the participant receives cash. These are much less common in PLCs but are sometimes used for executives where the individual is based in a jurisdiction where securities laws make the delivery of shares problematic.

Long-Term Incentives

Of all the elements of executive remuneration, it is perhaps in the area of share-based long-term incentive provision where the most stark differences between pre and post-IPO practice exist.

While practice is mixed, pre-IPO long-term incentive provision is often characterised by:

- The grant of large "one-off" awards which are not constrained by formal individual aggregate limits.
- The grant of traditional share options.
- Awards either not being subject to any performance conditions (bar an exit) or, if conditions do apply they are based on absolute targets (e.g. EBITDA, value on exit).
- The use of more esoteric tax structures that attempt to place as much as possible of any gain made into the capital gains tax (rather than income tax) regime.

In the listed arena, the vast majority of PLCs operate their long-term incentive policies along the following lines:

- Regular annual grants are made.
- "Performance Share Plans" (see below) are the most commonly used vehicle.
- A sliding scale of challenging performance conditions apply, measured over a three year period. The performance conditions can be absolute (e.g. EPS growth) but often are relative (e.g. relative Total Shareholder Return).
- Both annual individual limits and 10-year aggregate share dilution limits are strictly enforced.
- Tax aggressive structures are rare.

Types of Long-Term Incentives (see **Table 4**)

The two main types of long-term incentive arrangement traditionally operated by PLCs are:

- Share option plans, and
- Long-Term Incentive Plans (LTIPs). There are various types of LTIPs; Performance Share Plans and Share Matching Plans are the two most common, but long-term cash plans and restricted share plans are also (very occasionally) used.

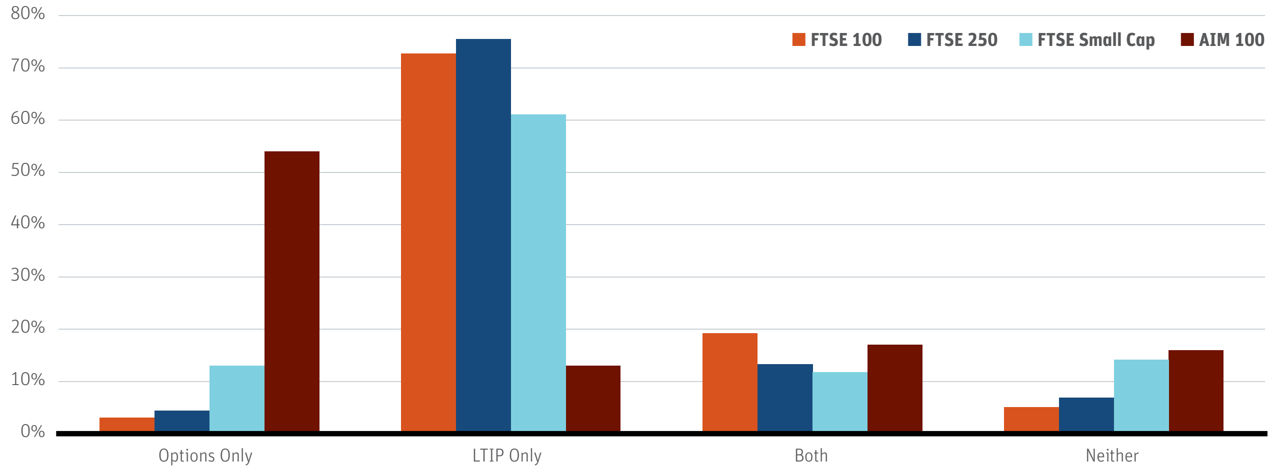
Chart 5 (overleaf) shows the prevalence of different types of long-term incentive arrangements operated by companies in the FTSE indices. It shows that share options are no longer common amongst (particularly larger) listed companies, with LTIPs the preferred vehicle. The main reasons for this are as follows:

- Since 2005, options have to be expensed through a company's Income Statement in the same manner as LTIP awards. Companies have found that, except where there is very high share price growth, options are likely to prove far more expensive than LTIPs to deliver an equivalent benefit.
- Options are more dilutive than LTIPs – fewer LTIP share awards need to be granted to deliver the same value.
- The link between performance and reward is often viewed as poor with options, as general market movements have a greater impact on reward levels than the performance of the company.

Despite the above reasons, option plans remain common in AIM companies. This may be because of (i) the greater prospect of high share price growth, (ii) the fact that tax efficient EMI options can be granted in smaller companies, and (iii) options granted over unissued shares are cash positive for the company. However, in general we expect the prevalence of options on AIM to reduce over time.

Long-Term Incentives

Chart 5. Types of Long-Term Incentives Available to Senior Executives



LTIPs typically give rise to an income tax and NICs liability on vesting (or, in the case of option plans, on exercise). There are plans available which seek to deliver any gains made under the capital gains tax rather than income tax regime. These plans are typically complex, often costly to implement, often require executives to pay an up-front and non-refundable tax charge, and rely on a lower rate of capital gains tax to be effective. Shareholders in theory do not oppose such arrangements but do specify that they should be cost-neutral to the company. As a result, and as stated above, these structures are rarely implemented by listed PLCs, notwithstanding the fact they are far more common amongst unlisted companies.

Performance Conditions

Institutional shareholders expect companies to impose performance conditions on the exercise of share options and the vesting of LTIP awards. Therefore, choosing the performance metric and setting the appropriate range of targets are key issues faced by companies considering an IPO. The metrics should be aligned to the company's post-IPO strategic aims, must be challenging (and viewed by shareholders as such) but also must be considered realistic so that participants are motivated.

The targets must also be clearly communicated to participants who may not be as familiar with listed PLC performance metrics such as Total Shareholder Return (TSR) and Earnings Per Share (EPS) as they are with measures such as EBITDA and operating profit.

As mentioned above, in the vast majority of listed PLC plans performance is measured over a fixed three year period, with awards vesting at the end of the performance period. That said, occasionally newly listed companies grant awards on IPO with a shorter performance period in an attempt to bridge the gap between the vesting of pre-IPO awards and the first vesting of post-IPO awards.

Charts 6 and **7** show the types of performance conditions used in LTIPs. EPS and TSR remain the most common measures (including when used in combination with another measure).

EPS targets can take the form of a growth rate (usually measured in excess of RPI) or an absolute target can be set. The targets should reflect the specific circumstances of the company and often shareholders will have regard to analyst forecasts when assessing whether they consider targets as challenging.

TSR tends to be measured on a relative basis against a specified comparator group (either a defined bespoke group or a broad sector or index).

The vesting range is set so that, say, 25% of an award vests for a threshold level of performance and the level of vesting increases up to 100% for a stretch level of performance. A typical TSR range is median to upper quartile ranking.

Chart 6. Performance Measures in Option Plans

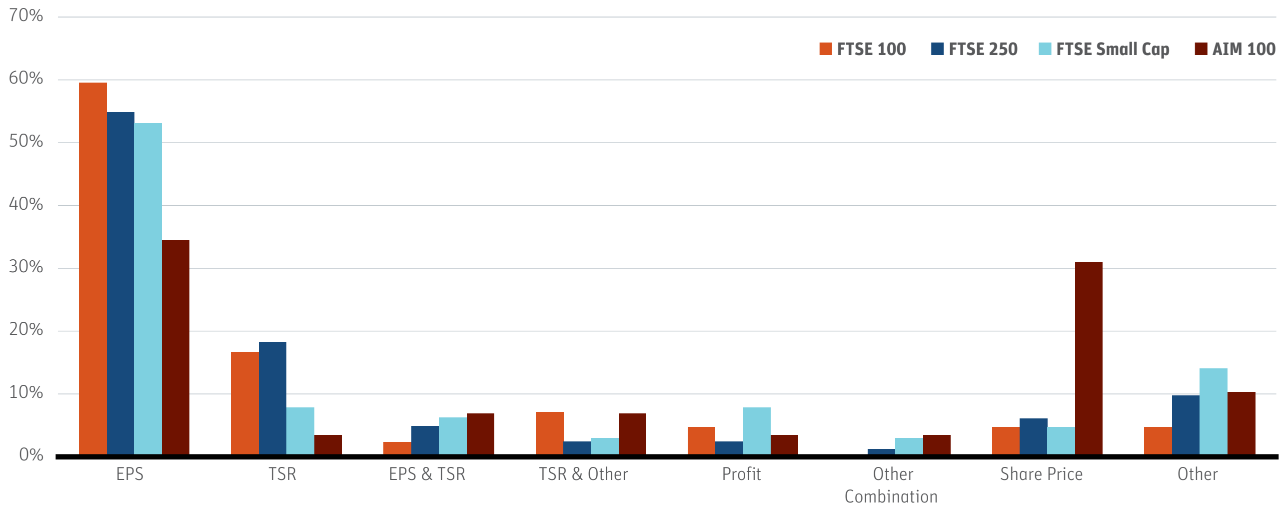
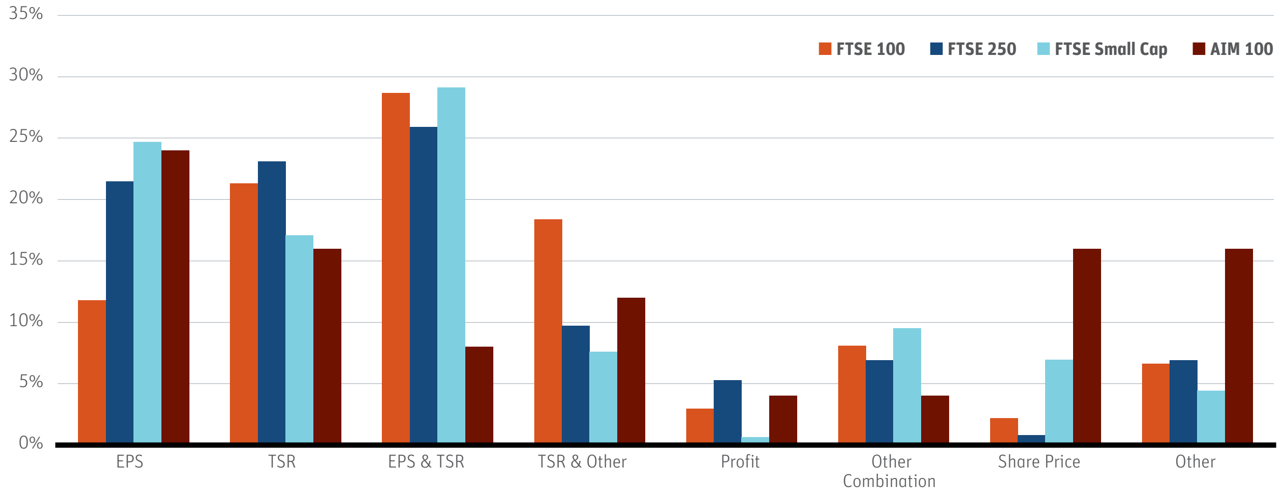


Chart 7. Performance Measures in LTIPs



During the recent economic downturn, a number of companies have amended how their performance conditions are structured. For example, some companies have moved away from EPS – due to the current difficulties in setting robust long-term EPS targets – and have introduced an element based on TSR (or increased the weighting of an existing TSR element). A small minority of others have introduced a strategic or cashflow target.

Where companies have retained EPS, some have moved from measuring out-performance above RPI to using absolute EPS targets (of Xp to Yp), particularly where actual EPS growth is expected to be modest (or non-existent) over the next few years. Shareholders tend to scrutinise any changes to performance measures applying to future awards and want to ensure that the new targets are at least as challenging in the circumstances as the targets for previous awards.

Long-Term Incentives

Award Levels

Listed companies tend to specify a normal annual limit for awards under option plans and Performance Share Plans, reflecting typical PLC practice for regular annual awards (which is quite different to the more "one-off" nature of awards in a pre-IPO environment). **Table 8** shows a quartile analysis of annual limits in the FTSE indices.

Share Matching Plans are structured slightly differently. Companies tend to disclose the maximum level of match and investment (either as a percentage of the bonus payable or of salary). The most common level of maximum match is 2:1 amongst larger companies and 1:1 amongst smaller companies.

As companies often operate more than one plan at the same time, it is important to look at the aggregate awards granted each year under all plans to get a "true" picture of quantum. **Table 9** shows the median actual "expected value" (i.e. Black-Scholes type value – see Appendix 1) of awards made last year, where an award was made. It should be noted that, while it is typical for FTSE All-Share companies to make awards annually, fewer AIM companies make annual awards.

Unsurprisingly, award levels are higher in larger companies, with the table showing that the median aggregate expected value of awards to CEOs in the FTSE 100 is 142% of salary (this equates to an LTIP award of around 260% of salary in face value terms).

Table 8. Quartile Analysis of Annual Limits in Option Plans and PSPs (as a % of Salary)

	FTSE 100			FTSE 250		
	LQ	M	UQ	LQ	M	UQ
Options	188%	200%	300%	150%	200%	250%
PSPs	150%	200%	300%	100%	150%	200%

	FTSE Small Cap			AIM 100		
	LQ	M	UQ	LQ	M	UQ
Options	100%	175%	200%	100%	200%	200%
PSPs	100%	100%	150%	100%	100%	150%

Table 9. Quartile Analysis of Expected Value of Long-Term Incentive Awards (as a % of Salary)

	FTSE 100			FTSE 250		
	LQ	M	UQ	LQ	M	UQ
Highest Paid Director	89%	142%	206%	55%	80%	126%
Finance Director	77%	114%	178%	54%	74%	112%
Other Directors	75%	110%	187%	52%	66%	114%

	FTSE Small Cap			AIM 100		
	LQ	M	UQ	LQ	M	UQ
Highest Paid Director	44%	56%	84%	32%	43%	62%
Finance Director	37%	55%	82%	23%	48%	74%
Other Directors	37%	55%	82%	33%	50%	82%

IPO Transaction Awards

At IPO some companies make a larger long-term incentive award to reward executives for bringing the company to market. In addition, the award can act as a retention mechanism to retain executives during the post-IPO period where shares may have vested pursuant to (often large) pre-IPO awards.

These larger awards are typically made under the terms of new, post-IPO plans. However, they can on occasion also be made immediately prior to IPO under the pre-IPO arrangements (perhaps where a private equity backed company is granting awards over the remaining portion of a share pool that had previously been agreed with its investors but not "used up" until this point).

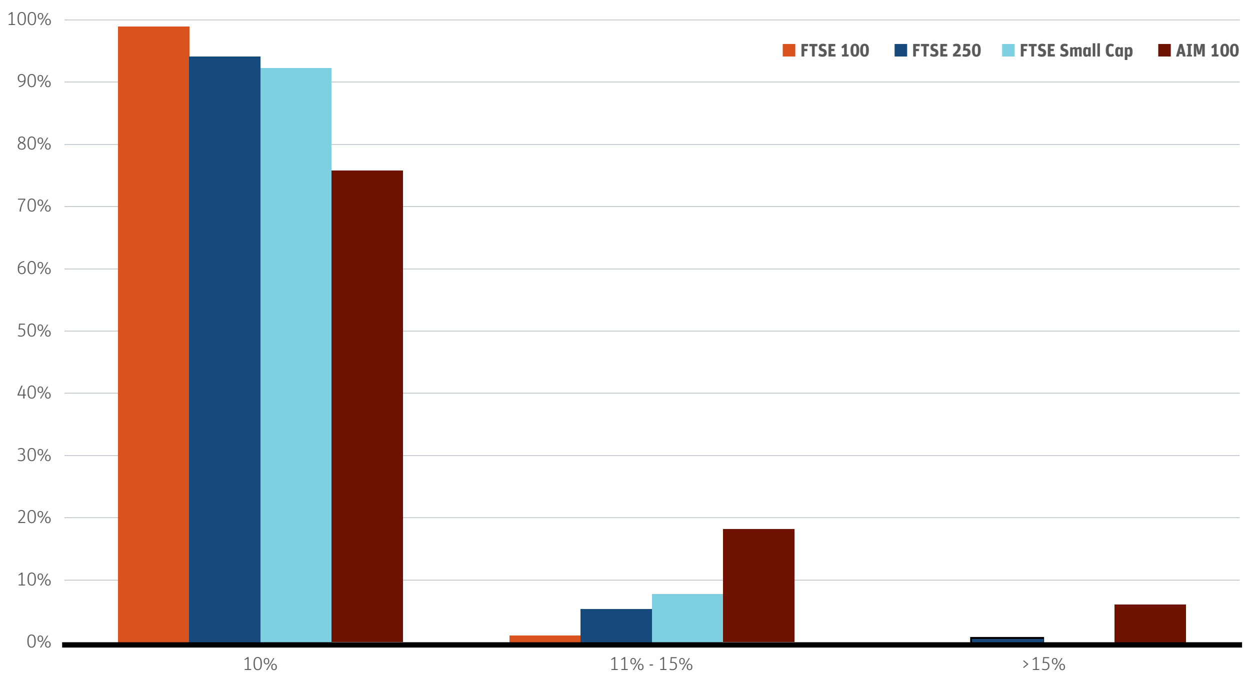
Dilution

When deciding upon a grant policy to adopt post-IPO, a newly listed company must take account of the dilution limits to which it will be expected to adhere. The ABI's guidelines for PLCs state that only 10% of the issued share capital of a company should be used for share schemes in any 10-year period. In addition, only 5% in any 10-year period should be used for discretionary/ executive schemes (i.e. ones not operated on an all-employee basis).

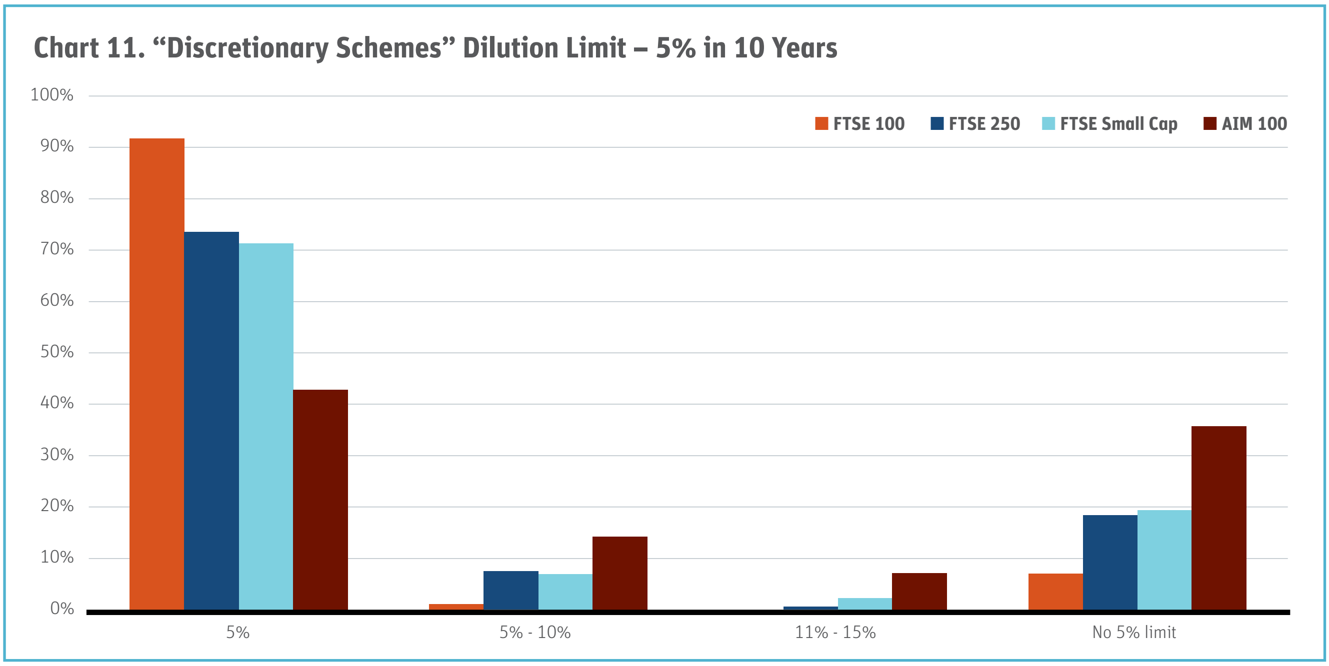
Chart 10 shows that over 90% of FTSE All-Share companies company have a 10% limit, as do over 75% of AIM 100 companies. **Chart 11** (overleaf) also shows that over 70% of FTSE All-Share companies have a 5% limit, but AIM companies are less likely to.

Ordinarily, all awards granted post-IPO count towards dilution limits (save that grants satisfied using market-purchased shares do not count). Sometimes, companies also exclude from their post-IPO dilution limit calculations awards granted over shares at IPO.

Chart 10. "All Schemes" Dilution Limit – 10% in 10 Years



Long-Term Incentives



Lock-In Periods

On IPO many executives will realise significant equity value through the vesting of pre-IPO awards. To deter executives from cashing in their equity and leaving, almost all companies floating specify a lock-in period during which executives are not able to sell their shares.

Typically, all shares have to be retained (although a minority of companies specify a lower percentage). Generally the majority of companies (around 85%) specify a period of 12 months for the lock-in period (with around 10% specifying two or three years). A staggered approach can also be adopted (i.e. X% of the shares are locked in for one year, the balance for two years).

Share Ownership Guidelines

Institutional investors encourage Executive Directors to build up a substantial actual shareholding in their company (rather than just have an interest in shares via long-term incentive awards over shares). As a result, a number of companies now operate "share ownership guidelines". These guidelines typically are structured in one of two ways, (i) as a level of shareholding to be built up over a prescribed period of time (often 3-5 years) or (ii) executives must retain a proportion of (net of tax) vested share awards until the guideline is met, with no time period laid down.

Around 80% of FTSE 100 and 60% of FTSE 250 companies specify a shareholding guideline. Guidelines become less common amongst smaller companies – only 40% of FTSE Small Cap companies and only 3 AIM 100 companies disclose operating such a guideline.

The median level of shareholding required is 100% of salary, except for CEOs in FTSE 100 companies where it is 200% of salary.

Pension

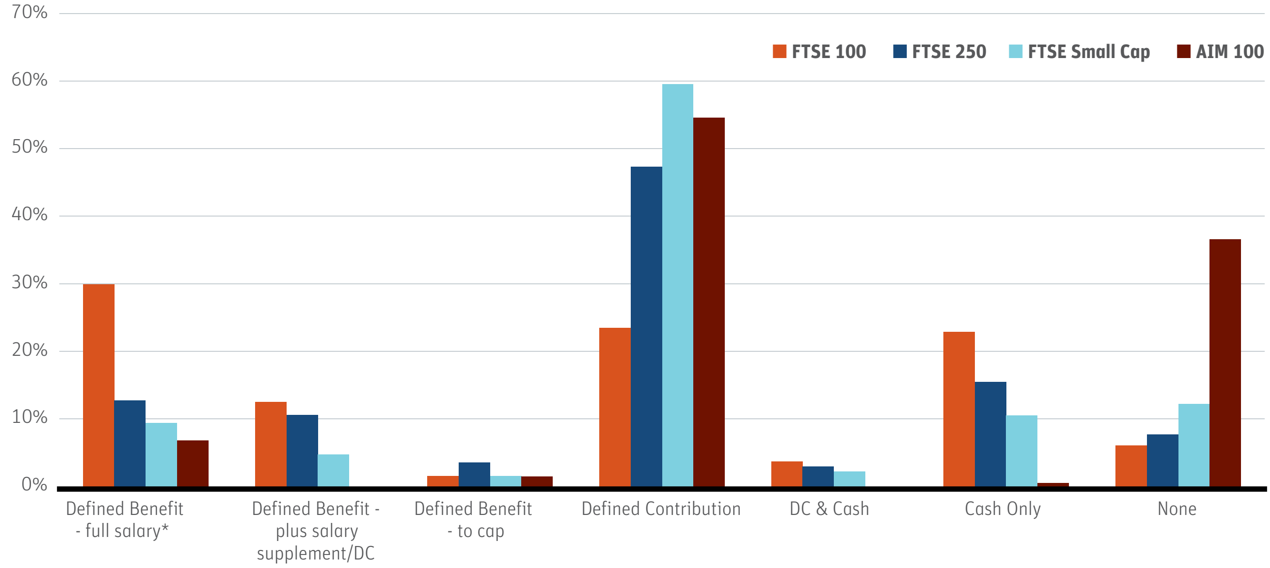
When structuring their senior executives' remuneration packages, newly listed companies must also consider how to provide retirement-related benefits.

Chart 12 shows that the most common pension provision amongst listed PLCs is a Defined Contribution plan.

Table 13 sets out the typical rate of contribution to defined contribution plans, together with information on salary supplements.

The new tax rules relating to pensions are likely to result in many companies (both listed and unlisted) reviewing their executives' pension provision.

Chart 12. Types of Pension Arrangement



* Includes Directors that receive separate funded/unfunded arrangements

Table 13. Quartile Analysis of Company Defined Contributions and Cash Supplements

	FTSE 100			FTSE 250		
	LQ	M	UQ	LQ	M	UQ
Defined Contributions	13%	22%	29%	10%	15%	20%
Cash Supplements	24%	26%	30%	15%	25%	30%

	FTSE Small Cap			AIM 100*		
	LQ	M	UQ	LQ	M	UQ
Defined Contributions	10%	14%	18%	6%	10%	15%
Cash Supplements	13%	19%	23%	-	-	-

* There is insufficient data to provide a quartile analysis of cash supplements paid to AIM 100 Directors.

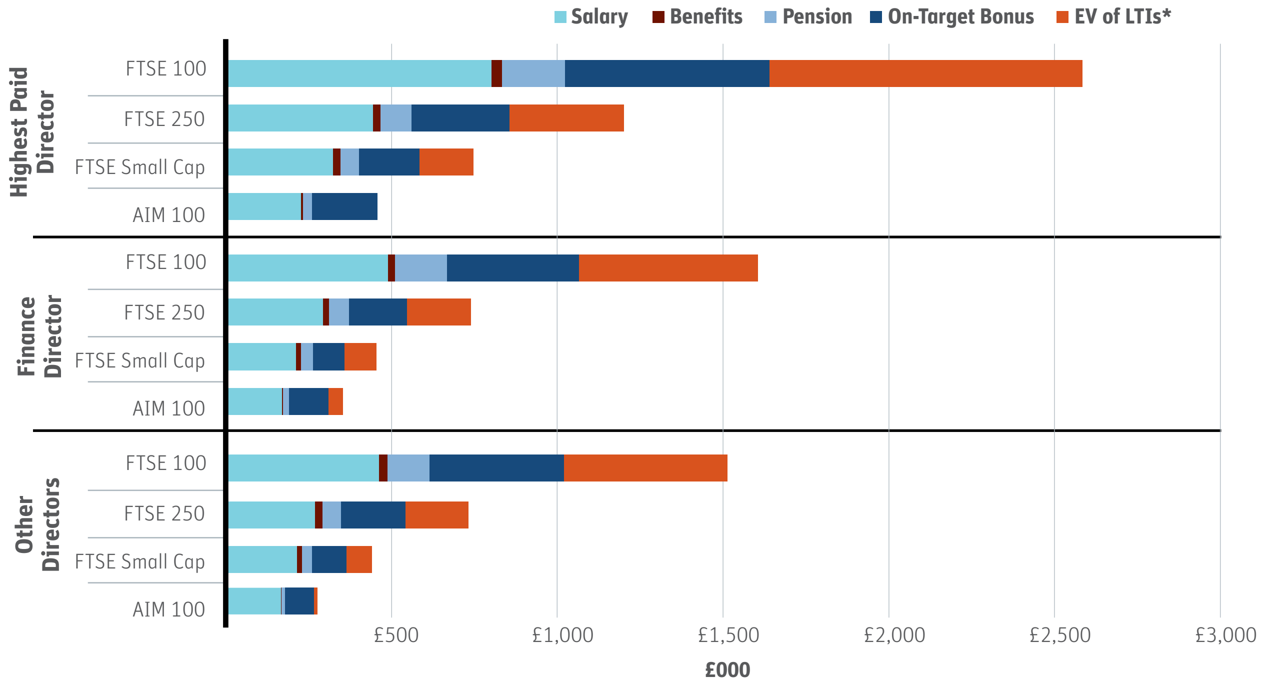
The Total Package:

Quantum and Balance

When Remuneration Committees set salary and other elements of the package, it is important to consider the value of the overall package and the balance between fixed and variable pay. At IPO, it is likely that salaries are adjusted, bonuses increased and new long-term incentives introduced. Therefore, careful thought will need to be given as to how each of these elements of pay interact.

Chart 14 shows the typical total target/expected value of listed PLC Executive Directors' remuneration packages for various sizes of company, as well as the breakdown between each element of pay (further details of the methodology we have used to value each element of the package are set out in Appendix 1). **Table 15** provides a more detailed quartile analysis of target total remuneration levels.

Chart 14. Median Target Total Remuneration



* Expected Value of Long-Term Incentives

Table 15. Quartile Analysis of Total Remuneration

	FTSE 100			FTSE 250		
	LQ	M	UQ	LQ	M	UQ
Highest Paid Director	£1,879,000	£2,583,000	£4,038,000	£870,000	£1,201,000	£1,701,000
Finance Director	£1,127,000	£1,606,000	£2,328,000	£580,000	£739,000	£1,014,000
Other Directors	£1,084,000	£1,513,000	£2,197,000	£529,000	£733,000	£921,000

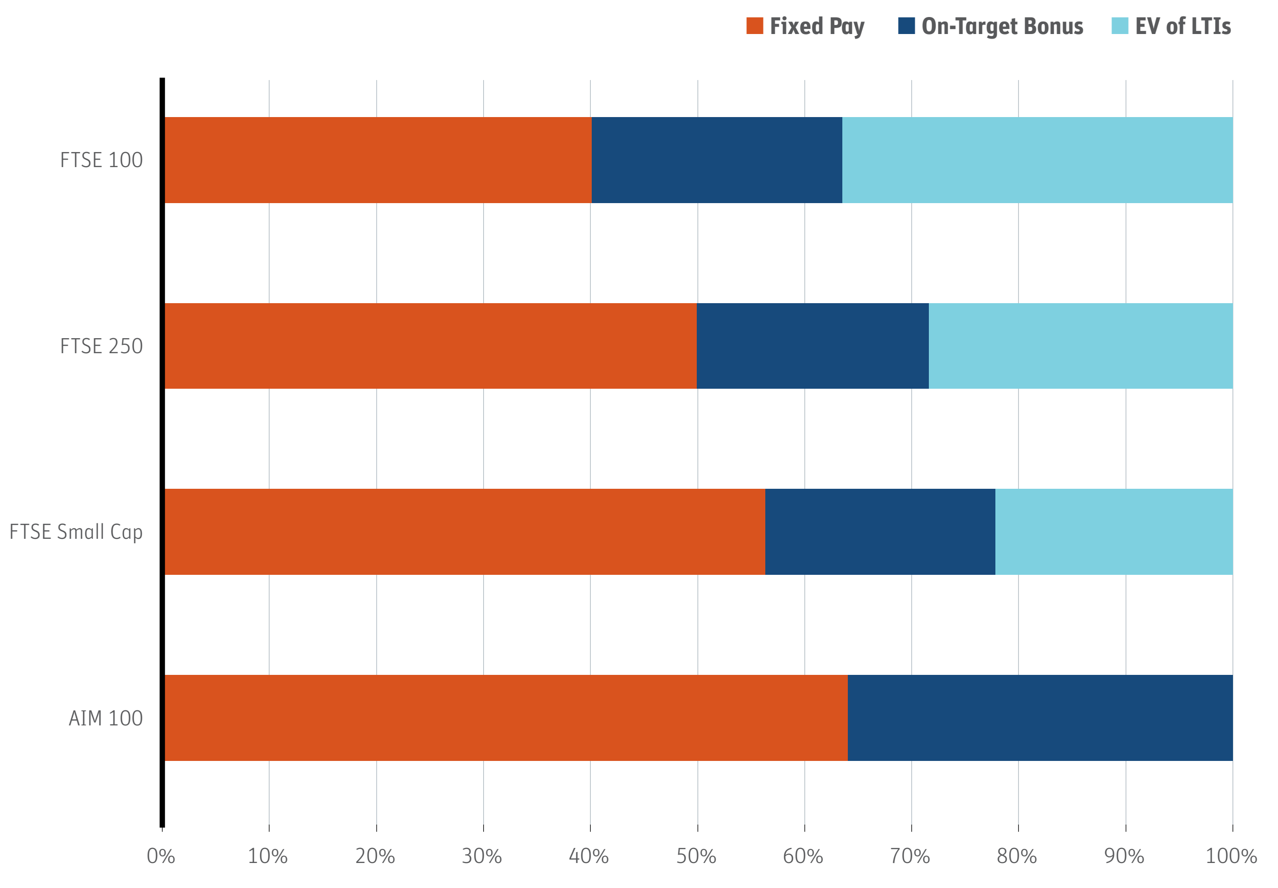
	FTSE Small Cap			AIM 100		
	LQ	M	UQ	LQ	M	UQ
Highest Paid Director	£522,000	£747,000	£938,000	£274,000	£458,000	£922,000
Finance Director	£362,000	£454,000	£605,000	£204,000	£354,000	£458,000
Other Directors	£325,000	£441,000	£615,000	£190,000	£277,000	£410,000

Chart 16 looks at the relative weighting between fixed and variable pay, as well as between short-term bonus and long-term incentives for the Highest Paid Director in the different FTSE indices. It shows that around 60% of a FTSE 100 and 50% of a FTSE 250 Highest Paid Directors' package is variable (with a greater weighting on long-term variable pay). In the FTSE Small Cap, only 45% of the package is variable with an equal weighting between short and long-term performance. In AIM 100 companies only around 35% of the package is variable. Smaller companies may have a lower weighting on incentive pay for a number of reasons, such as the potentially high accounting cost and dilutive impact of a "heavy" long-term incentive grant policy.

Therefore, generally speaking, the larger the company:

- The higher the overall reward opportunity.
- The greater the role played by performance-related pay.
- The greater the weighting towards long-term incentive pay.

Chart 16. Fixed v Variable – Highest Paid Directors



All-Employee Share Plans

PLCs often operate share plans in which all employees can participate so as to build a "stakeholder culture".

There are three main types of plans, all of which are tax efficient HMRC "approved" arrangements:

- Save As You Earn (SAYE or Sharesave) – regular monthly savings of up to £250 per month are made over a 3 or 5 year period which can be used to fund the exercise of an option, where the option price is discounted by up to 20%.
- Share Incentive Plan (SIP) – a flexible arrangement that allows the grant of free shares and provides employees with a tax-efficient way of purchasing shares.
- Company Share Option Plan (CSOP) – variable levels of market value options (up to a £30,000 limit) can be made.

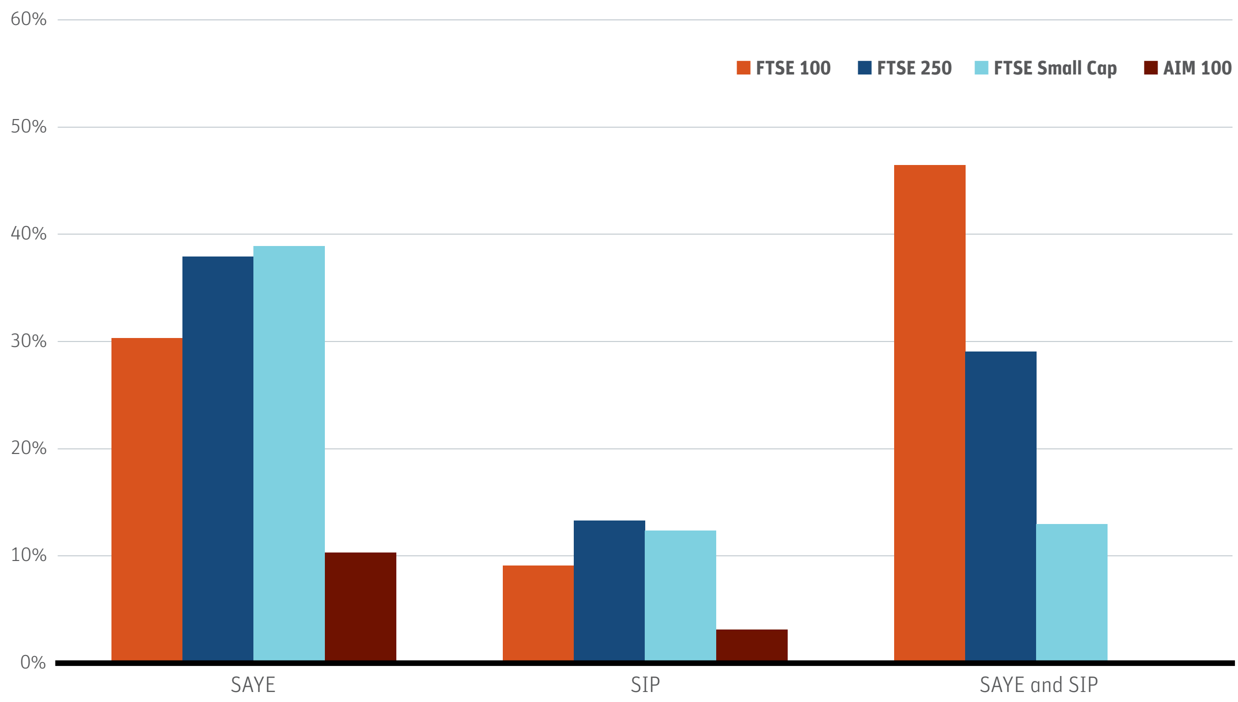
Unlike an SAYE or SIP, a CSOP does not have to be offered to all employees. However, some companies choose to operate CSOPs on an all-employee basis. Details of SAYE and SIP arrangements are set out in Appendices 5 and 6.

There are many pros and cons of these arrangements and some of the key issues include accounting and administrative cost, the dilution impact, whether individuals' investment is at risk and the tax advantages.

Chart 17 shows the prevalence of SAYE and SIPs in the FTSE indices. It should be noted that some companies may have adopted a SIP but do not actually operate it.

Typically, these plans are operated on a regular on-going basis. However, some companies use the "free shares" element of the SIP to make a one-off, tax-efficient award (sometimes at IPO) to UK employees as recognition for their efforts to date and to make all employees shareholders.

Chart 17. All-Employee Share Schemes



Contracts

On IPO it is also quite common for the pre-IPO service contracts of the Executive Directors to be replaced by new contracts that are more best practice compliant.

The vast majority of PLC Executive Directors' contracts have a notice period of 12 months. As most contracts contain 12 months' notice periods, the focus of investor attention is now more on how the termination payment of a departing executive is calculated, particularly in the current economic climate where avoiding "rewards for failure" is a key concern.

The best practice requirements are:

- Contracts should not contain liquidated damages clauses (which specifically define upfront the compensation payable on termination) as they can "over-reward" departing executives. Shareholders prefer contracts that rely on general principles of mitigation.
- Only salary should be included when determining compensation payments, although many contracts still contain benefits, pension and bonus.
- Compensation payments should be "phased" to ensure that mitigation is taken into account, with phased payments ceasing (or reducing) as and when the departed executive finds alternative employment.
- Contracts should not contain enhanced rights on a change of control (e.g. to an increased notice period).

Non-Executive Directors

At IPO the structure and quantum of Non-Executive Director (NED) fees often change.

In terms of structure, a key point is that PLC shareholders do not believe that NEDs should receive bonus, options or any form of long-term incentive. In private companies, many NEDs receive options (often in return for a very modest cash fee). Therefore, where such a company is planning an IPO it will often require that the NEDs exercise their options on IPO.

Table 18 provides a quartile analysis of Non-Executive Directors' fee levels in FTSE indices, divided between Non-Executive Chairmen, Senior Independent Directors, Remuneration Committee Chairmen, Audit Committee Chairmen and other Non-Executive Directors that chair no committees.

Table 18. Quartile Analysis of Non-Executive Directors' Total Fees

	FTSE 100			FTSE 250		
	LQ	**M**	**UQ**	**LQ**	**M**	**UQ**
Non-Executive Chairmen	£250,000	£323,000	£484,000	£115,000	£150,000	£193,000
Senior Independent Directors	£60,000	£75,000	£95,000	£45,000	£51,000	£61,000
Remuneration Committee Chairmen	£62,000	£73,000	£86,000	£42,000	£47,000	£56,000
Audit Committee Chairmen	£65,000	£80,000	£96,000	£42,000	£46,000	£55,000
Non-Executives (Chair of no Committees)	£52,000	£60,000	£79,000	£36,000	£40,000	£47,000

	FTSE Small Cap			AIM 100		
	LQ	**M**	**UQ**	**LQ**	**M**	**UQ**
Non-Executive Chairmen	£71,000	£100,000	£121,000	£40,900	£53,800	£80,200
Senior Independent Directors	£35,000	£40,000	£45,000	£30,300	£37,200	£48,400
Remuneration Committee Chairmen	£35,000	£40,000	£45,000	£26,300	£37,700	£48,400
Audit Committee Chairmen	£35,000	£37,000	£43,000	£26,300	£37,700	£48,400
Non-Executives (Chair of no Committees)	£30,000	£35,000	£39,000	£21,000	£29,100	£40,900

Many companies now specify "base fees" and additional fees for chairing a committee or, less commonly, for being the Senior Independent Director. These additional fees (which are already included in the above total fee analysis) are set out in **Table 19**. There is insufficient data for such analysis in the AIM 100.

Table 19. Quartile Analysis of Additional Fees

	FTSE 100			FTSE 250		
	LQ	**M**	**UQ**	**LQ**	**M**	**UQ**
Audit Committee Chairman	£10,300	£12,800	£20,400	£6,000	£9,100	£11,000
Remuneration Committee Chairman	£11,200	£17,900	£25,500	£5,100	£7,500	£10,000
Senior Independent Director	£10,200	£13,300	£20,900	£5,000	£5,200	£12,500

	FTSE Small Cap		
	LQ	**M**	**UQ**
Audit Committee Chairman	£5,000	£6,000	£7,500
Remuneration Committee Chairman	£5,000	£5,100	£7,100
Senior Independent Director	£3,000	£5,100	£7,500

Appendix 1:
METHODOLOGY

The FTSE All-Share and AIM Executive Director data has been sourced from public disclosures in Report & Accounts and circulars. Data has been provided for the:

- Highest Paid Director – either the Chief Executive or the full-time Executive Chairman;
- Finance Director; and
- Other Directors – i.e. other main Board Executive Directors, excluding Chief Executives, Executive Chairmen and Finance Directors.

Target total remuneration has been calculated on an "expected value" basis. By this, we mean that a value has been attributed to each element of an executive's package. **Table 20** sets out the assumptions used to calculate total remuneration. Only executives who have been in post throughout the relevant financial year have been included.

Table 20. Calculating Target Total Remuneration

Salary	Reported current salary or salary paid in the prior year.
Benefits	Reported cash value.
Pension	Defined contribution plans or cash supplements – company contribution as a percentage of salary. Defined benefit plans – an annual value has been calculated using actuarial assumptions based on each individual's accrual rate, retirement age, pension increase post-retirement and employee contribution (assuming an average age of 50).
On-target bonus	On-target bonus as a percentage of salary, if disclosed. If not disclosed, then we have assumed an on-target bonus of 50% of the maximum bonus potential. If neither the on-target nor maximum is disclosed, then we have used the actual bonus paid last year as a percentage of salary.
Expected value of long-term incentives (EV of LTIs)	Based on the company's grant policy, if disclosed, or the actual awards of options and LTIPs made last year as a percentage of salary. We have then applied an expected value – for options 20% of the face value, for free share awards with performance conditions (i.e. LTIPs) 55% and for free share awards without performance conditions 100%.
Total remuneration	Salary + benefits + pension + on-target bonus + expected value of long-term incentives.

Appendix 2:
DISCRETIONARY OPTION PLANS

Participation

Technically all employees can participate, but typically the Remuneration Committee selects which employees will do so.

Option Terms

Options are typically exercisable between the third and tenth anniversaries of the date on which they are granted. Best practice requires the achievement of specified performance conditions to be met before options are exercisable and for the participant to remain employed with a group company at the time of exercise.

Options normally lapse on the participant leaving employment, although exercise is usually permitted following cessation of employment in certain limited "compassionate" circumstances (such as death, injury or disability). Early exercise may also be permitted in the event of a take-over, reconstruction or winding up of the company. In both cases, typically, performance conditions are applied.

Limits

Normally, there is a limit on the value of options an individual may receive.

No individual may hold HMRC "approved" options over unexercised shares with a market value in excess of £30,000 (calculated by reference to market value at the date of grant). Approved options carry the tax benefits specified below.

Unapproved options can usually be granted in any year over shares with a market value up to a multiple of salary determined by the company and specified in the plan rules.

Option Price

The option price tends to be the market value of the shares under option at the date of grant. "Approved" options cannot have an exercise price which is less than the market value of a share of the company at the date of grant.

Tax

In the case of both approved and unapproved options, there is no tax liability on the grant of an option. On the exercise of an unapproved option, income tax (at the participant's marginal rate) and national insurance contributions (NICs) are payable on the difference between the market value of the shares on exercise and the option price. Any further growth in value realised on the subsequent sale of the shares is then taxable in accordance with the capital gains tax rules.

However, no income tax or NICs are payable on the exercise of "approved" options, provided the date of exercise is at least three years following the grant of the option. This tax relief is also available before the third anniversary of the grant date if the approved option is exercised following cessation of employment in certain "compassionate" circumstances.

If any of the above circumstances do not apply, then participants will have to pay income tax (at their marginal rate) and NICs on the exercise of the option (as described in relation to unapproved options above).

On the subsequent sale of shares, any growth in value would be taxable in accordance with the capital gains tax rules.

Appendix 3:
LONG-TERM INCENTIVE PLANS

Participation
Generally all employees can participate, but typically the Remuneration Committee selects which employees will do so.

Award Terms
Long-Term Incentive Plans take many forms, although the most common form is often called a "Performance Share Plan". A typical Performance Share Plan works as follows:

- Participants are conditionally allocated free shares each year.
- Vesting of the shares is deferred until the end of a performance period (normally three years).
- The number of free shares released to participants at the end of the performance period depends upon the company's performance and the participants' continued employment with a group company on vesting.

Awards normally lapse on the participant leaving employment, although vesting is usually permitted following cessation of employment in certain limited "compassionate" circumstances. Early vesting may also be permitted in the event of a take-over, reconstruction or winding up of the company. In both cases, typically, performance conditions are applied and it is best practice for awards to be time pro-rated to reflect the shorter period between grant and vesting.

Some companies link the award level to an investment in company shares by the participant. This is called a "Share Matching Plan".

Limits
There is normally a limit on the value of awards an individual may receive in any year (usually a multiple of salary determined by the company and specified in the plan rules).

Tax
There is no tax liability on the grant of an award but participants will be subject to income tax (at their marginal rate) and NICs on the value of the shares on vesting. On the subsequent sale of the vested shares, any further growth in value would be taxable in accordance with capital gains tax rules.

Appendix 4:
ENTERPRISE MANAGEMENT INCENTIVE SCHEMES

Legislative Requirements

The Enterprise Management Incentives (EMI) scheme is a share option scheme aimed at small entrepreneurial companies which meet certain legislative conditions. For example, a company may not grant EMI options if its gross assets exceed £30 million at the time the options are granted. If the company is a member of a group, this £30 million limit is applied to the group's assets. Other conditions include that the company must satisfy an "independence" test, must carry on a qualifying trade (as defined in the legislation) and may not employ more than 250 full-time employees at the time of grant. The granting company should seek advice as to whether or not it complies with the legislative requirements before granting EMI options.

Participation

Technically all employees can participate, but typically the Remuneration Committee selects which employees do so.

In order to be "eligible", an individual must be an employee of the company or a qualifying subsidiary and must work for at least 25 hours per week or, if he is required to work less than 25 hours a week, whose working time with the company's group makes up at least 75% of his total working time. In addition, an individual cannot participate if he has a "material interest" which broadly means that he controls or beneficially holds more than 30% of the company.

Option Terms

Options are typically only exercisable on or before the tenth anniversary of the date they were granted. Best practice requires the achievement of specified performance conditions to be met before options are exercisable.

Options normally lapse on leaving employment unless the company decides otherwise, although exercise is usually permitted following cessation of employment in limited "compassionate" circumstances. Early exercise may also be permitted in the event of a take-over, reconstruction or winding up of the company. If performance conditions apply, it is best practice for these to be applied before options become exercisable in these circumstances.

Limits

No individual may hold options over more than £120,000 worth of shares (calculated by reference to market value at the date of grant). In addition, a company cannot have options outstanding at any one time over more than £3m of shares (again calculated by reference to market value on grant).

Option Price

The option price tends to be the market value of the shares under option at the date of grant. However, the option price can be set at a discount, thereby allowing LTIPs to be structured as EMI options.

Tax

There is no tax or NICs liability on the grant of an option. On exercise, there is no income tax or NICs to pay provided that the option price was at least equal to the market value of the shares at the date of grant (and provided the option is exercised within 10 years). However, if the option price was set at a discount to market value at the date of grant, then income tax and NICs will be payable on exercise on the amount of the discount.

On the sale of shares following exercise, any gain made would be taxable in accordance with the capital gains tax rules.

Appendix 5:
SHARESAVE (SAYE) PLANS

General

The key features of a Sharesave plan are set out in the Income Tax (Earnings and Pensions) Act 2003. A Sharesave plan must be approved by HMRC in order to provide tax-advantaged options to UK employees.

Participation

All employees and full-time directors of the establishing company (or any participating subsidiary) who are UK resident taxpayers are eligible to participate. The Board of Directors of the establishing company may require employees to have completed a qualifying period of employment of up to five years before the grant of options. At the discretion of the Board of Directors other employees may be allowed to participate.

Not all group companies need to participate, but the selection of participating companies cannot be used to favour higher-paid employees.

Two Elements of a Sharesave Plan

A Sharesave plan comprises two elements – a savings account and an option to acquire shares.

Savings

A participant must enter into a special savings contract with a building society, bank or other savings institution. He must save a minimum of £5 a month and a maximum of £250 a month across all savings contracts under any Sharesave plan.

Regular contributions are made by deduction from pay (after tax) over three or five years. At the end of that period, the accumulated savings can be withdrawn together with a tax-free bonus equal to a guaranteed number of monthly contributions. Alternatively, with a five year savings contract, the account may be left open for a further two years (making seven), during which no further contributions are paid, at the end of which the bonus is approximately doubled.

Employees can choose to either withdraw their savings and tax-free bonus as a cash lump sum, or use those savings and bonuses to buy shares under their Sharesave option. The scheme is therefore risk free for employees until exercise because they are not obliged to exercise their options.

Option to Acquire Shares

When an employee starts saving, he is granted an option to buy shares using the proceeds of the savings contract and bonus after three, five or seven years (chosen at the outset by the company or the employee). The number of shares he can buy will be whatever number can be bought at the option price using the final savings amount and bonus.

Early exercise is permitted where the employee leaves employment in certain “compassionate” circumstances and may also be permitted in the event of a corporate event (e.g. change of control).

Option Price

The option price must be fixed when the option is granted and may not be less than 80% of the market value of the underlying shares at that time.

Tax

There is no tax liability on the grant of an option. Employees do not normally pay income tax or NICs on the exercise of their options. On the sale of shares following exercise, any gains would be taxable in accordance with the capital gains tax rules.

Appendix 6:
SHARE INCENTIVE PLANS (SIP)

General
The key features of a Share Incentive Plan are set out in the Income Tax (Earnings and Pensions) Act 2003. The SIP must be approved by HMRC.

Participation
All employees of the company and any designated participating subsidiary who are resident in the UK for tax purposes are eligible to participate in a SIP. The Board of Directors of the establishing company may require employees to have completed a qualifying period of employment of up to 18 months in order to be eligible to participate. Not all group companies need to participate, but the selection of participating companies cannot be used to favour higher-paid employees. All eligible employees must be invited to participate.

Operation
The SIP contains three elements and the company is free to decide which (if any) of these elements it offers to eligible employees.

1.
"Free Shares" can be distributed to employees.
The market value of Free Shares that can be allocated to an employee in any tax year must not exceed £3,000. Free Shares can be allocated equally amongst employees or on the basis of salary, length of service, hours worked, or the performance of the company, one or more business units or individual performance.

2.
An employee can buy "Partnership Shares" out of his or her earnings (before tax).
An employee can agree to purchase shares with a market value of up to £1,500 (or 10% of his or her salary, if lower) in any tax year. These are called "Partnership Shares". The funds used to purchase Partnership Shares will be deducted from the employee's pre-tax salary. Salary deductions may be accumulated over a period of up to 12 months and then used to buy shares at the lower of the market value of the shares at the start and at the end of the accumulation period. As shareholders from the outset, this element therefore involves potentially more risk to the employee than a SAYE scheme.

3.
"Matching Shares" which are free shares which may be allocated to an employee who purchases Partnership Shares.
The Board may allocate Matching Shares to an employee who purchases Partnership Shares up to a maximum of two Matching Shares for every one Partnership Share purchased. The matching ratio must be the same for all participants.

Holding of Shares

All shares awarded to or acquired by employees are held in trust.

Employees can withdraw their Partnership Shares from the trust at any time and the shares cannot be forfeited. Free Shares and Matching Shares will normally be held in trust for a period of between three and five years after award. The company can decide that awards of Free Shares and/or Matching Shares will be forfeited if participants cease to be employed by a group company within three years of grant, except in specified “compassionate” circumstances.

While the shares are held in the trust, participants are the beneficial owners of the shares and will be able to receive the benefit of dividends, direct the trustee to vote at shareholder meetings, participate in rights and capitalisation issues and decide whether to accept takeover offers.

Tax

No income tax or NICs are payable when shares are awarded to or acquired by employees, nor when they are withdrawn from trust, if they are left with the trustee for at least five years. If shares are removed from trust within three years, income tax and NICs will be payable on their value at that time. If shares are withdrawn from trust between three and five years, income tax and NICs will be payable on, broadly speaking, the lesser of the value of the shares at the time of withdrawal and their value on award/acquisition.

No capital gains tax (CGT) is chargeable on increases in the value of the shares while they are held in the plan. No CGT is chargeable on shares held for five years and sold immediately on removal from the plan. Employees may choose to keep shares when they come out of the plan and sell them later. If they do this, they will be liable to CGT only to the extent that the shares have increased in value since they were withdrawn from the plan.

Appendix 7:
Summary of UK PLC Investor Views

Most UK institutional shareholders have strong views about senior executive pay, with many of them being members of the Association of British Insurers (ABI) and/or the National Association of Pension Funds (NAPF).

RiskMetrics provides voting guidance to its UK subscribers (e.g. pension funds) and US subscribers to Institutional Shareholder Services (ISS). This is based on its policy guidance which is consistent with the NAPF corporate governance policy for FTSE All-Share companies. RiskMetrics is arguably at least as influential as the ABI.

While RiskMetrics issues a "vote for" or a "vote against" recommendation to its members in relation to executive pay-related (and all other) resolutions that are tabled by listed PLCs at their AGMs, the ABI issues voting reports which are colour coded:

ABI colour coding	What it means	Implication
"Red-top"	Serious breach of the ABI guidelines	ABI members likely to vote against proposal
"Amber-top"	Breach of ABI guidelines	ABI members should be aware of the issue and consider whether they wish to support the proposal
"Blue-top"	Complies with ABI guidelines	No major issues for shareholders to be aware of
"Green-top"	Indicates an issue that has now been resolved	–

ABI Guidelines

The ABI guidelines remain the most well known "best practice" guidelines.

The guidelines open with main Principles followed by three sections on i) Remuneration Committees and their responsibilities, ii) Guidance for base pay, bonuses, pensions and contracts and severance, and iii) Guidance for share-based incentive schemes.

A summary of the ABI Guidelines follows.

Principles

- Remuneration committees should maintain active dialogue with shareholders.
- Pay benchmarks should be used with caution (to avoid a "ratcheting" of pay).
- Remuneration should be linked to individual and corporate performance that aligns interests of executives and shareholders.

Section 1
Remuneration Committees and their Responsibilities

- The Remuneration Committee is responsible for ensuring that the mix of incentives reflects company's needs, has an appropriate fixed/variable balance, that targets are appropriately stretching and relevant and take account of risk.
- The Committee should take a rigorous approach in selecting pay comparator groups.
- While the Committee's main focus is on executive director pay, it should also pay particular attention to senior executives who are not on the Board but have significant influence and should have oversight of all remuneration-related risks throughout the firm.

Section 2
Guidance for base pay, bonuses, pensions and contracts and severance

Salary

- Justification is required for paying base salaries at or above median.

Bonus

- If forward disclosure of bonus targets is commercially sensitive, disclose main parameters (and extent to which targets met) retrospectively.
- Bonuses should be capped, levels should be disclosed and increases need to be justified.
- Not pensionable.
- Remuneration Committee should reserve the right to reduce or reclaim bonuses in the event of a misstatement of results.

Pension

- Remuneration Committees should be aware of the cost impact of the value of pension and its impact on the fixed versus variable pay mix.
- Full disclosure of actual and potential liabilities (from defined benefit schemes) is encouraged.
- Early retirement pensions should be subject to abatement.
- No compensation should be paid for changes in personal tax liabilities.

Contracts and Severance

- No automatic entitlement to bonuses or share awards on termination of employment.
- Phased payments are generally appropriate for fulfilling compensation on early termination.
- Shareholders less supportive of liquidated damages approach.
- Remuneration Committees should ensure that full benefit of mitigation is obtained.
- Upon dismissal due to disciplinary reasons, shorter notice periods should apply.
- No additional protection on change of control.

Other

- Ex-gratia payments should be fully disclosed, justified and subject to shareholder approval.
- No transaction bonuses should be paid where the financial consequences of the transaction are uncertain.

Section 3
Guidance for share-based payments

- No incentive awards for Non-Executive Directors.
- Share ownership guidelines are encouraged.
- Regular (annual) phasing of grants are encouraged, with vesting no less than three years after grant.
- Challenging performance criteria relating to overall corporate performance should apply.
- "Cliff-edge" vesting is inappropriate.
- An underlying financial performance underpin should apply to awards vesting subject to Total Shareholder Return.
- Any retesting of performance conditions is unnecessary and unjustified.
- On a change of control, performance conditions and time pro-rating should apply.
- Where individuals choose to terminate employment before the end of the service period, awards should lapse.
- Plan rules should contain dilution limits relating to commitments to issue new shares or re-issue treasury shares – 5% (of share capital) in 10 years for discretionary schemes and 10% in 10 years for all schemes.
- Shareholder approval is required for any substantive or exceptional amendments to scheme rules or where significant exercise of Remuneration Committee discretion.

Revised ABI Guidelines and Positioning Paper

While new ABI guidelines have often been issued on an annual basis, the ABI published only minor amendments to the guidelines in December 2009.

However, a positioning paper was prepared to assist companies in understanding how the ABI guidelines should be interpreted in the current economic climate. Headline points of this guidance include:

- LTIP award levels (as a percentage of salary) should be scaled back where there has been a substantial fall in share price.
- Financial underpins supporting TSR relating to LTIP awards should be based on underlying financial performance and not solely on performance relative to peers.
- No bonus should be paid if there has been an "exceptional negative event".
- The ABI re-iterated their opposition to retention awards.
- Tax-efficient share plans should be cost neutral to the company and should not open the company up to reputational issues.
- The ABI will look more closely at pay benchmarking groups in 2010.
- No salary increases are appropriate until the share price has recovered.

NAPF/RiskMetrics

The NAPF remuneration principles echo the Corporate Governance Code's main principles on remuneration:

- "Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance"; and
- "There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her remuneration."

While the NAPF policy also includes the ABI guidelines, it has issued its own separate guidance in November 2009 and January 2010:

- Base salary – increases should be capped at inflation.
- Bonuses – should be aligned with profits so that if profits fall, bonus should not be greater than prior year. Remuneration Committees should also be sensitive to shareholders and consider exercising discretion to scale back bonuses where targets have been met but the award may be considered excessive. Part of annual bonus should be deferred and subject to claw-back.
- Share Plans – if targets are reduced and/or share price has fallen, it is reasonable to expect the scale of awards to be reduced.
- All (i.e. not just financial) companies should take account of "risk" when setting their remuneration policies.

- Investors should evaluate remuneration arrangements in their entirety. A list of items which would likely cause concern and may trigger a voting sanction is set out below:
  - Where companies do not limit contractual termination payments to base salary and benefits (i.e. entitlement to unearned bonus is included).
  - Tax efficient share plans which result in increased costs to the company or result in overly complex incentives.
  - One-off retention awards.
  - Rebalancing packages to short-term performance.

The tax summaries are the position as at 1 June 2010.

About Hewitt New Bridge Street

Hewitt New Bridge Street is the UK's leading executive remuneration consulting firm. We have a single focus – to assist companies design and implement executive remuneration policies that will help them meet their business objectives.

We are a multi-disciplinary team, combining the professional skills of accountants, lawyers, reward experts, investor relations specialists and actuaries. We are a named adviser in the Directors' Remuneration Report of around 120 FTSE 350 companies and around 60 FTSE Small Cap companies, making us the most named adviser in both indices. We also advise many AIM and Fledgling companies. In addition, we provide advice to many companies, and their financial advisers, in the lead-up to their IPO (and usually remain the company's Remuneration Committee adviser thereafter).

We are part of the HR Consulting business of Hewitt Associates, the world's leading HR consultancy with over 23,000 associates in over 35 countries providing advice to our clients on a range of reward, executive remuneration, HR, pension and outsourcing issues.

If you wish to find out how we can help you, please contact Hewitt New Bridge Street on 020 7939 4000, by email to hnbs@hewitt.com or visit our website at www.nbsc.co.uk.

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