Hewitt New Bridge Street

Research Findings

Report on FTSE AIM 100 Directors' Remuneration

2011

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Contents

The Numbers

This report's main findings are as follows:

Base Salary & Total Remuneration

- The median salary of AIM 100 Highest Paid Directors is around £230,000, with a median total package of £430,000 (compared with £230,000 and £460,000 as per our last report).
- The median salary of AIM 100 Finance Directors is around £175,000, with a median total package of £330,000 (compared with £170,000 and £354,000 as per our last report).
- The reductions in total pay levels since our last report are probably not due to actual reductions in pay levels, but more due to changes in the constituents of the AIM 100.
- That said, executive base salary inflation has fallen significantly over the last two years due to the economic climate and many companies (of all sizes and listings) are continuing to freeze salaries or to limit increases to those of the wider workforce.
- These salary and total pay levels are lower than in equivalent sized FTSE Small Cap companies. In addition, the structure of the package also differs. AIM 100 packages are weighted more towards fixed pay – typically around 65% of the package is fixed compared to around 55% in FTSE Small Cap companies of an equivalent size.

Annual Bonus

- The median disclosed annual bonus potential of AIM 100 Executive Directors is 100% of salary. However, disclosure of maximum annual bonus opportunity is sparse.
- Unlike practice on the main market, bonus share deferral is rare (only 11% of companies disclose doing so). "Clawback" provisions are even rarer.

Long-Term Incentives

- The most common approach in AIM 100 companies is the sole operation of an Option Plan (57% of companies, broadly unchanged from our last report), notwithstanding the many inherent disadvantages of Option Plans. It is because of these disadvantages that the most common approach in fully listed companies of an equivalent size is the sole operation of an LTIP.
- AIM 100 Highest Paid Directors received long-term incentive awards last year (where a grant was made) with an "expected value" of 40% of salary at the median, which broadly equates in face value terms to an option grant of 110% of salary or an LTIP award of 75% of salary.
- It remains rare for AIM companies to make regular annual long-term incentive grants (which is common practice amongst fully listed companies), possibly due to cost and dilution constraints. Indeed, around 35% of Highest Paid Directors and around 20% of Finance Directors have not received a long-term incentive grant in the last three years and around 20% of Highest Paid Directors and 40% of Finance Directors have received only one award in the last three years.

The Numbers

- 70% of companies apply performance targets to their long-term incentive grants. Where they are used, EPS and share price/absolute TSR are the most common performance metrics in Option Plans and LTIPs.
- Shareholding guidelines for Executive Directors are extremely rare – only 2% of companies disclose using such a guideline, although many Directors may already be large founder shareholders.
- Disclosure on dilution limits is poor. However, where disclosed, around 80% of companies comply with the 10% in 10 year “all schemes” dilution limit, with only around 30% complying with the 5% in 10 year “discretionary schemes” dilution limit.

Pensions

- The most common pension provision is via a Defined Contribution plan (provided to around half of Directors). The median defined contribution for Executive Directors is around 15% of salary.
- That said, around 45% of Directors receive no formal pension provision.
- The new pensions legislation is likely to require many companies to review their executive pension provision.

Service Contracts

- Reflecting best practice, around 65% of Executive Directors’ contracts contain notice periods of 12 months. That said, around 35% have notice periods of less than 12 months (compared to only around 20% in fully listed companies of an equivalent size).

Non-Executive Directors

- The median Non-Executive Chairman’s fee is £63,000. This is substantially less than in FTSE Small Cap companies of an equivalent size.
- Other Non-Executive Directors tend to receive fees of between £34,000 and £40,000 depending on their role. Typically, an all inclusive fee is paid rather than, as is common amongst fully listed companies, a base fee and additional fees for chairing committees etc.

Introduction

Welcome to the 2011 Hewitt New Bridge Street report on FTSE AIM 100 Directors' Remuneration – the second report we have produced focusing solely on remuneration in AIM companies. This report seeks to provide market data on pay practices in the AIM 100 index (the top 100 AIM companies, by market capitalisation), as well as showing how practice compares to fully listed companies of a similar size. Where appropriate, we also provide commentary on recent trends.

The AIM 100 has been "struck" at 30 September 2010. The market capitalisation of these companies ranges up to £1,264m, with a median of £229m. The data for fully listed companies of a similar size presented in this report for comparative purposes relates to a subset of the FTSE Small Cap with a median market capitalisation as at 30 September 2010 of £229m.

The Executive Director data has been sourced from public disclosures in Report & Accounts and Circulars published up to 30 September 2010. Data is provided for the Highest Paid Director (either the Chief Executive or the full-time Executive Chairman), Finance Directors and "Other Directors" (i.e. other main board Executive Directors, excluding Chief Executives, Executive Chairmen and Finance Directors).

We have used an "expected value" approach when calculating total remuneration. Table 1 sets out the assumptions used to calculate the value of each element of the package. Only executives who have been in post throughout the relevant financial year have been included.

Table 1. Calculating Total Remuneration

Salary	Reported current salary or salary paid in the prior year. No ageing factor has been applied.
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 estimated accrual rates, retirement age, pension increase post-retirement and employee contribution.
On-target bonus	On-target bonus as a percentage of salary, if disclosed (albeit in only 2% of cases). 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 (the case in over 60% of companies), 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 (which is the case in only around 5% of instances), or the actual awards of options and LTIPs made last year as a percentage of salary. We have then applied an "expected value" to those awards – 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.

Governance, Disclosure and Best Practice

Key Points to Note

- The Boards of over 65% of AIM companies are comprised of at least 50% Non-Executive Directors.
- Over 80% of AIM 100 companies have at least two independent NEDs on the Board.
- Executive pay disclosure in AIM companies is improving, with AIM companies now required by statute to provide more disclosure. However, the level of disclosure still lags behind fully listed company practices.
- Over 65% of AIM 100 companies have a remuneration report section in their annual accounts and around 35% of these companies put the report to a shareholder vote.

The regulatory framework for AIM companies remains less onerous than that for fully listed companies. For example, AIM companies are not subject to the full UKLA Listing Rules but instead are subject to a regulatory regime designed specifically for smaller companies. Also, AIM companies are not covered by the UK Corporate Governance Code (formerly the “Combined Code”), although investors tend to expect larger AIM companies, as a minimum, to take note of the Code’s recommendations.

In terms of corporate governance, 65% of AIM 100 companies’ Boards are comprised of at least 50% Non-Executive Directors (a UK Corporate Governance Code requirement for FTSE 350 companies), with over 80% having at least two independent Non-Executive Directors (a UK Corporate Governance Code requirement for smaller companies). Further, 60% of Remuneration Committees are comprised solely of independent Non-Executive Directors (another Code requirement).

As part of the more benign corporate governance regime, AIM companies benefit from lower levels of disclosure requirements, as they do not need to comply with the Directors' Remuneration Report Regulations. However, some companies choose to provide similar levels of disclosure as a fully listed company. Additionally, following changes to the AIM rules at the beginning of 2010, all AIM companies with financial years ending 31 March 2010 and thereafter are now required to provide more pay disclosure. The additional disclosure requirements cover all elements of the pay package – including equity awards and pension – for each director on an individual basis. Below we set out details of the level of disclosure by AIM 100 companies, the majority of which published their Report and Accounts prior to the new disclosure rules coming into effect:

- 67% of AIM 100 companies have a separate remuneration report that forms part of their report and accounts.
- Around 35% of companies with a remuneration report put it to a shareholder vote, notwithstanding the fact that they are not obliged to do so.
- 85% disclose remuneration levels for each individual director rather than just aggregate levels.
- 71% disclose details of the Executive Directors' service contracts.
- Of those that have a bonus plan, only 22% disclose the maximum bonus potential.
- Of those that have a long-term incentive plan, only a small minority disclose the maximum individual award limit.

Disclosure amongst AIM companies appears to be increasing, and will certainly do so once the new disclosure requirements bite. This trend is likely to continue, not only because of the new disclosure rules, but also because of pressure from investors who would ideally wish that all companies, including those listed on AIM, provide explanations on matters such as:

- The level of salary increase, if any.
- The structure of annual bonuses (e.g. the maximum bonus that can be earned, the "target" bonus opportunity, the metrics used to determine bonus payouts etc).
- The size and structure of long-term incentive award levels, particularly the performance conditions to which awards are made subject.
- Ensuring that pay policies do not encourage inappropriate risk-taking, with targets set with full account taken of risk.

The Total Package: Quantum and Balance

Key Points to Note

- Packages are around 30%-45% smaller in AIM 100 companies compared to equivalent sized FTSE Small Cap companies.
- Around 65% of the package is fixed (compared to only 55% in FTSE Small Cap companies).

Quantum

Table 2 provides a quartile analysis of the total value of AIM 100 Executive Directors' remuneration packages. For comparison, it also shows salary levels in FTSE Small Cap companies of an equivalent size.

It shows that total pay is lower in AIM companies compared to FTSE Small Cap companies of an equivalent size (by around 30%-45%). This is partly due to lower salary levels but also, perhaps surprisingly, due to lower levels of variable pay (see later).

Table 2. Quartile Analysis of Total Remuneration

	AIM 100			Equivalent FTSE Small Cap		
	LQ	**M**	UQ	LQ	**M**	UQ
Highest Paid Director	£290,000	**£432,000**	£678,000	£558,000	**£781,000**	£998,000
Finance Director	£217,000	**£328,000**	£414,000	£403,000	**£484,000**	£631,000
Other Directors	£220,000	**£292,000**	£416,000	£378,000	**£549,000**	£787,000

Chart 3 looks at both the overall level of remuneration and also the breakdown between each element of pay. A significant number of Directors did not receive any long-term incentives last year. Indeed, at the median, the Other Director category shows a long-term incentive value of £0. This is evidence of the fact that AIM companies often do not make long-term incentive awards every year (this is considered in more detail in the long-term incentive section). Therefore, we have also looked at the package for just those Directors that received a long-term incentive award last year (see Chart 4).

Chart 3. Median Total Remuneration – All Directors

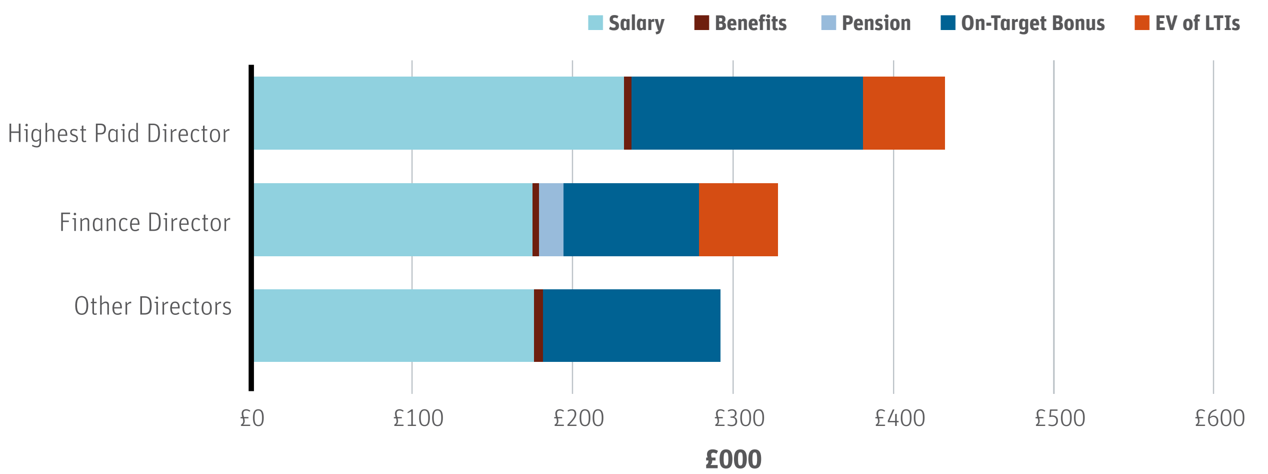
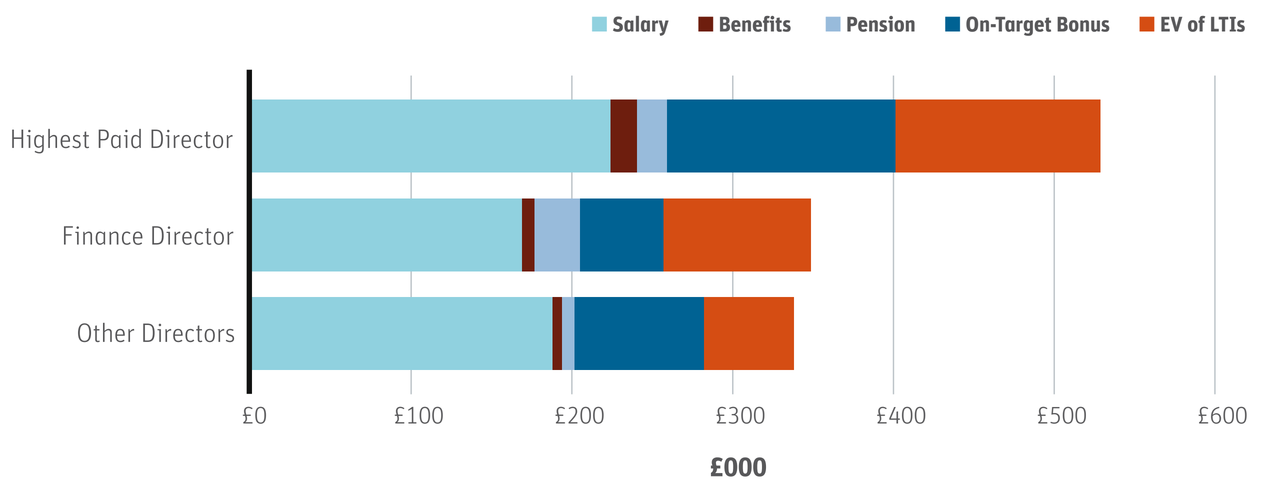


Chart 4. Median Total Remuneration – Where an LTI Grant was Received Last Year



There has been no significant change in total remuneration levels since our last report. Indeed, at the median total pay levels have actually reduced, although this is likely to be more a result of a change in the constituents of the AIM 100 rather than companies actually reducing pay levels.

The Total Package: Quantum and Balance

Fixed and Variable Pay

Charts 5 and 6 look at the relative weighting between fixed and variable pay, as well as between short-term bonus and long-term incentives.

As on the previous page, we have separated the analysis between all Directors (Chart 5) and just those Directors that received a long-term incentive grant last year.

Chart 5. Fixed v Variable Pay by Role – All Directors

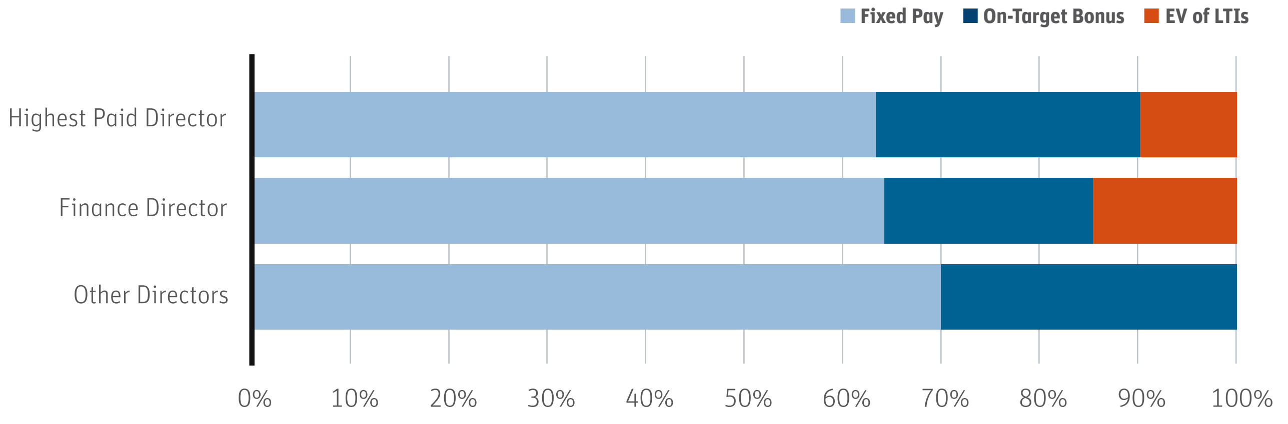
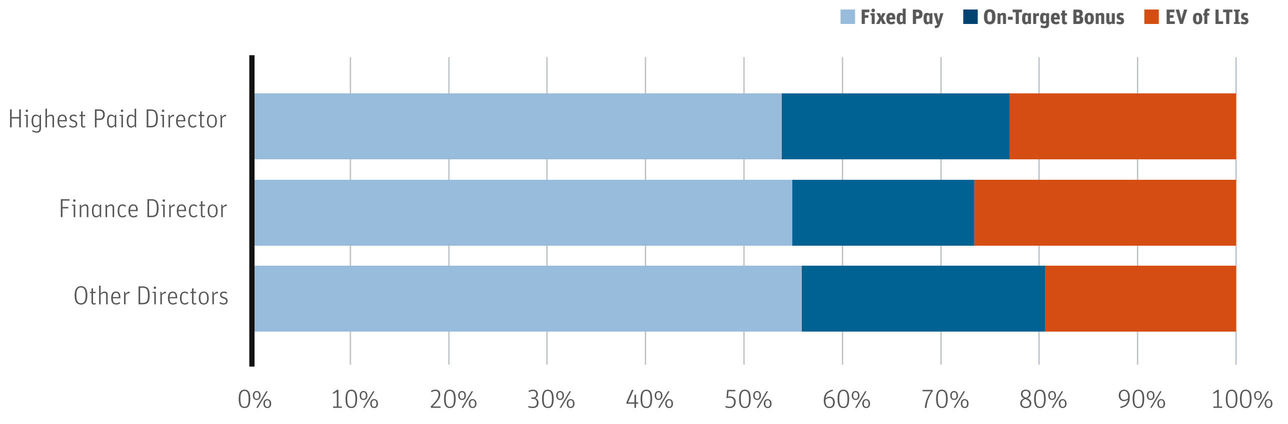


Chart 6. Fixed v Variable Pay by Role – Where an LTI Grant was Received Last Year



As can be seen overall, around 65% of an AIM Director's package is fixed (compared to around 55% in FTSE Small Cap companies). However, this falls to around 55% when just Directors that received a long-term incentive grant are considered.

The fact that AIM companies appear to operate less performance-linked packages is surprising given that it is often beneficial for companies in early stages of development with low profits (characteristics that may be shared by many AIM companies) to offer greater levels of variable pay as this controls fixed costs, increases alignment with investors and helps to foster a true entrepreneurial spirit.

Base Salary

Key Points to Note

- Salary levels in AIM companies are lower than in fully listed companies of a similar size.
- Executive Directors' salaries tend to be around 70%-75% of their CEO's salary.
- Salary levels have not increased significantly since our last report.

Quantum

As seen in the previous section, salary accounts for over 50% of AIM 100 packages and is the element of pay off which most others (e.g. pension, bonus opportunity and long-term incentive grants) are usually leveraged.

Table 7 sets out a quartile analysis of AIM 100 Executive Directors' salary levels. For comparison, it also shows salary levels in FTSE Small Cap companies of an equivalent size. As can be seen, AIM salaries are around 20%-30% below those of FTSE Small Cap companies of an equivalent size. Many AIM companies are still at an early stage of development with low profit streams and, therefore, it is perhaps not surprising that pay levels are lower than in companies on the main market who are likely to be more "mature".

Table 7. Quartile Analysis of Base Salary

	AIM 100			Equivalent FTSE Small Cap		
	LQ	**M**	UQ	LQ	**M**	UQ
Highest Paid Director	£190,000	**£232,000**	£302,000	£275,000	**£340,000**	£413,000
Finance Director	£150,000	**£175,000**	£207,000	£198,000	**£235,000**	£269,000
Other Directors	£151,000	**£176,000**	£234,000	£188,000	**£230,000**	£305,000

Typically, in fully listed companies of en equivalent size, Executive Directors receive salaries of around 60%-65% of their Chief Executive's, but in AIM 100 companies this is around 70%-75%.

Salary Increases

Given the current still relatively fragile nature of the economy, salary levels and increases remain a sensitive issue for Remuneration Committees and shareholders. Over 60% of fully listed FTSE Small Cap companies which disclosed their pay settlement for 2010 disclosed a salary freeze for this year, compared to around 80% in 2009. Unfortunately, due to lack of disclosure on pay settlements, it is difficult to statistically identify trends on AIM in this area. However, our experience is that a fairly widespread salary freeze has also applied on AIM.

Annual Bonus

Key Points to Note

- Where disclosed, the median maximum bonus potential in the AIM 100 is 100% of salary, although disclosure is poor (only 22% of companies disclose a cap).
- The level of actual bonuses paid (as a percentage of salary) was around 30%-35% of salary.
- Profit and personal performance are the most common annual performance metrics.
- It is highly unusual for AIM 100 companies to defer part of their bonus in shares, or operate "clawback" provisions.

Maximum Bonus Opportunity

Of the 76 AIM 100 companies that disclose having a bonus plan, only 22% disclose a maximum bonus potential. This compares to over 75% of FTSE Small Cap companies. We would suggest that most AIM 100 companies in fact do impose a cap on their bonus opportunity, but do not disclose doing so. This is again another area where we expect pay disclosure on AIM to become better as a result of the new regulations.

Chart 8 shows that bonus potential ranges between 6% and 300% of salary. Table 9 sets out a quartile analysis for each role and shows the median bonus potential is 100% of salary.

Chart 8. Maximum Bonus Potential (as a % of Salary)

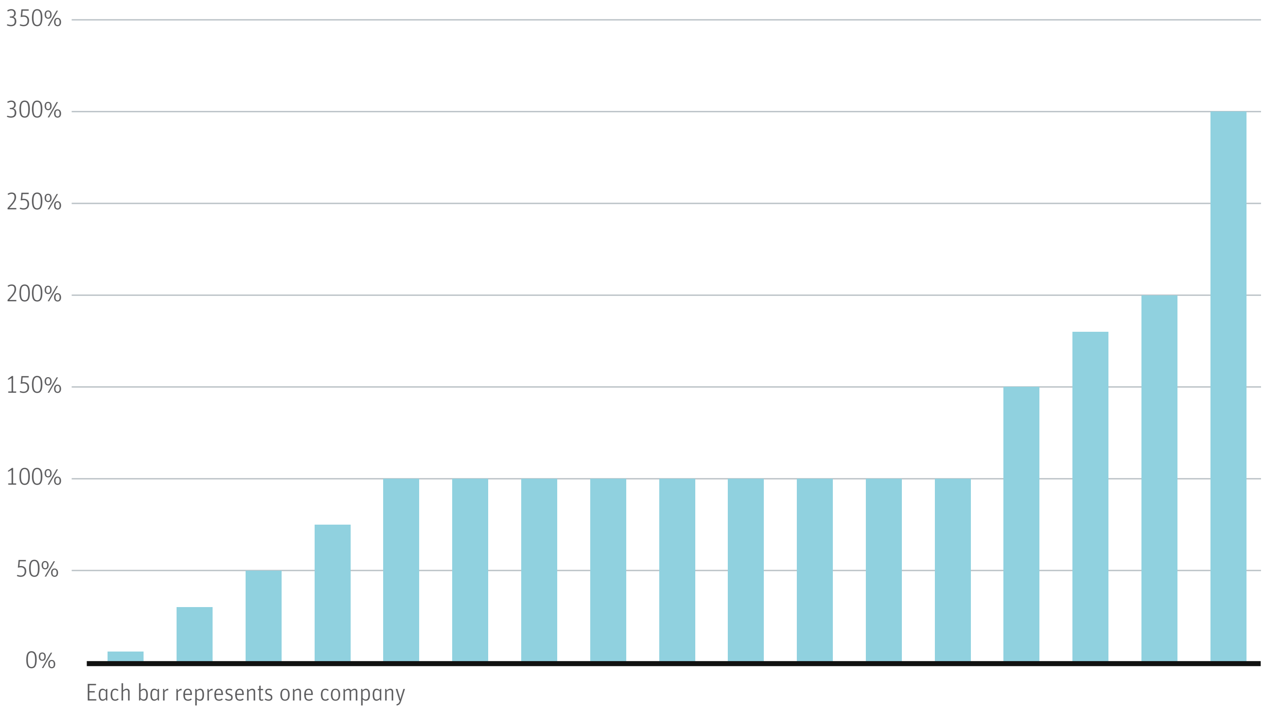


Table 9. Quartile Analysis of Bonus Opportunity (as a % of Salary)

	AIM 100		
	LQ	**M**	UQ
Highest Paid Director	100%	**100%**	100%
Finance Director	69%	**100%**	100%
Other Directors	69%	**100%**	100%

The median maximum bonus in the FTSE SmallCap is also 100% of salary.

Actual Bonuses Paid

Table 10 shows a quartile analysis of the most recently disclosed actual bonus paid as a percentage of salary in AIM 100 and FTSE Small Cap companies of an equivalent size (typically paid in 2010). As can be seen, bonus payouts on AIM were generally lower than in the FTSE Small Cap, perhaps reflecting lower bonus opportunities and/or tighter cash constraints during difficult trading conditions.

Table 10. Quartile Analysis of Actual Bonus (as a % of Salary)

	AIM 100			Equivalent FTSE Small Cap		
	LQ	**M**	UQ	LQ	**M**	UQ
Highest Paid Director	0%	**25%**	77%	0%	**50%**	86%
Finance Director	0%	**30%**	66%	3%	**47%**	72%
Other Directors	0%	**29%**	53%	0%	**47%**	71%

Annual Bonus

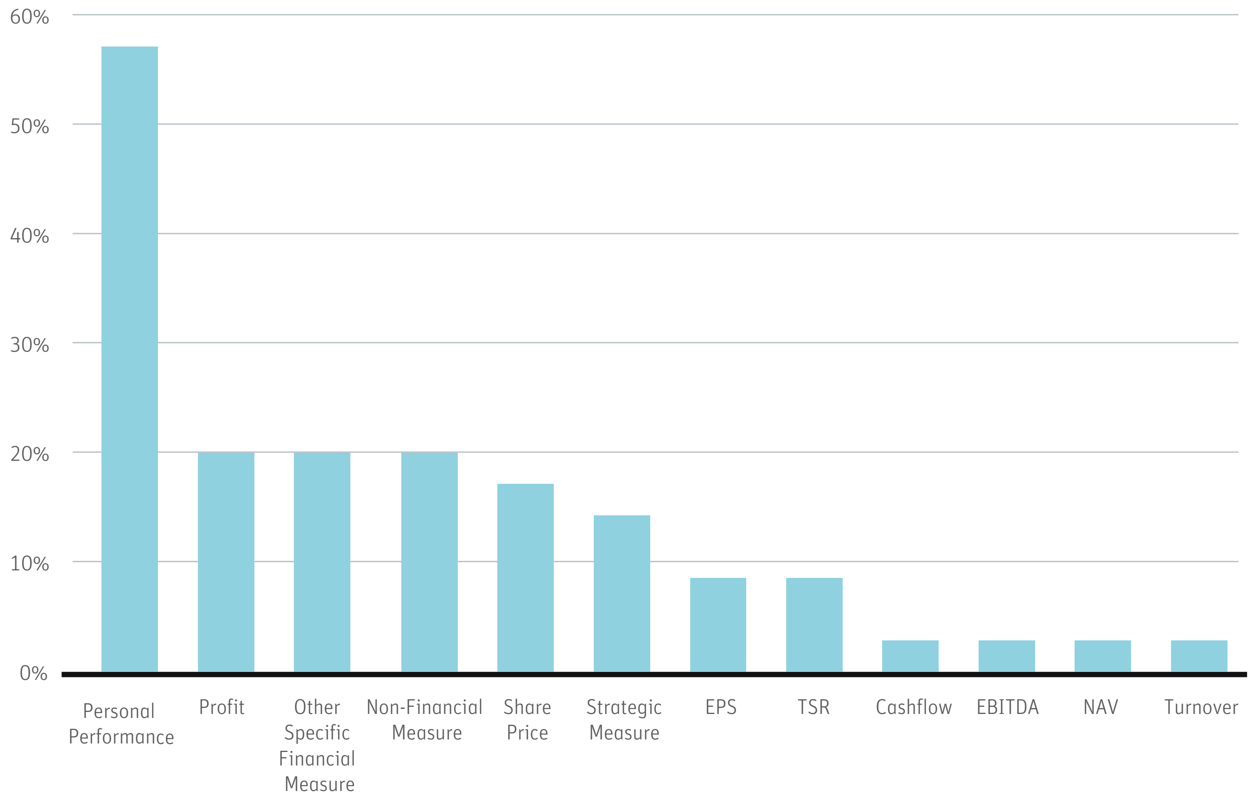
Performance Measures

An increasing focus is now falling on the performance targets used in annual bonuses. They should be in line with, and support the delivery of, the company's short and long-term strategic plan and goals and be stretching (albeit achievable).

Only around 45% of AIM 100 companies disclose the performance conditions used (compared to around 95% of FTSE Small Cap companies). Chart 11 shows the performance conditions applied by AIM 100 companies (where disclosed).

Most companies use more than one measure in annual bonus plans, with the most commonly used financial measure being profit. Interestingly, nearly 60% of companies include an element of personal performance in the annual bonus. This "balanced scorecard" approach of using a number of measures – both financial and non-financial – in determining bonus payouts, is likely to increase in popularity as it ensures that there is no over-focus on achieving financial targets "at all costs" (thereby possibly encouraging and rewarding undue operational risk-taking). Indeed, the whole concept of "risk" is becoming a much debated issue in annual bonus scheme design.

Chart 11. Performance Measures in Annual Bonus Plans



Companies may have more than one measure

Bonus Deferral

It is common amongst fully listed companies for a portion of the bonus not to be paid immediately but instead deferred into shares which are delivered one to three years later. This provides a further alignment of interest between executives and shareholders and also acts as an efficient retention mechanism (as the receipt of the deferred shares is conditional on continued employment).

However, this practice remains very rare on AIM. Only 11% of AIM 100 companies compulsorily require part of the bonus to be deferred in shares (compared to around 30% in the FTSE Small Cap and around 30% in the FTSE 250).

Amongst fully listed companies that operate bonus deferral, some also grant a corresponding award of “matching shares” under a “Share Matching Plan”. Typically, matching shares vest subject to the achievement of long-term performance targets, continued employment and the retention of matching shares. However, these plans are also very rare amongst AIM companies.

Bonus “Clawback”

To again address the issue of “risk”, best practice now encourages companies to operate “clawback” provisions in their annual bonuses, under which a bonus previously paid can be repaid (or some other means of redress applied) where it transpires that the bonus was paid on the back of misstated results or following some form of misconduct.

While we are seeing instances of fully listed companies introducing clawback, virtually no AIM company currently discloses the operation of such provisions.

Long-Term Incentives

Key Points to Note

- Contrary to practice amongst fully listed companies, the most common long-term incentive arrangement operated by AIM 100 companies remains the sole use of an Option Plan (57% of companies). Only around 33% operate a Performance Share Plan.
- Where long-term incentives are offered, they typically comprise around 20% of an AIM 100 Executive Director's remuneration package (compared to around 25% in FTSE Small Cap companies).
- The median expected value of long-term incentive provision (where grants are made) is around 40% of salary i.e. equivalent to an option grant of 200% of salary or an LTIP grant of 75% of salary.
- EPS and share price/absolute TSR are the most common metrics used in long-term incentive arrangements, although a number of companies use relative TSR in LTIPs.

Long-term incentive arrangements take two main forms:

- Share Option Plans ("Option Plans"), under which market value options are granted that vest three years later subject to continued employment and performance conditions; and
- Long-Term Incentive Plans (or "LTIPs"), under which conditional awards of whole free shares are granted which also vest three years later, again subject to continued employment and performance conditions.

There are two main types of LTIP:

- Performance Share Plans, under which conditional awards of shares are made without executives being required to invest in shares themselves; and
- Share Matching Plans, under which conditional awards of shares are made that 'match' the number of shares invested (using bonus, other monies or shares already held) and retained by the executive in the Plan.

The main pros and cons of Option Plans and LTIPs are as follows:

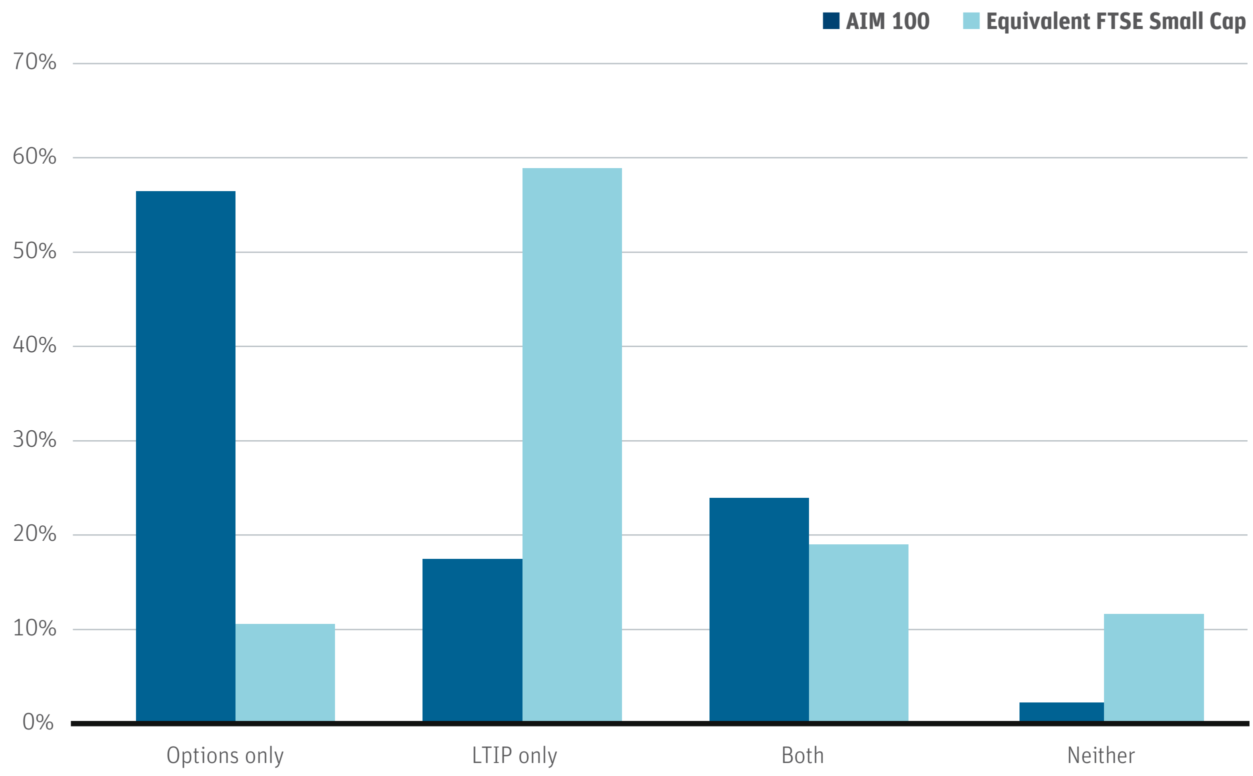
	Advantages	Disadvantages
Options	✓ There is an alignment of executives' and shareholders' interests as options only deliver value if the share price rises.	✗ Options do not act as an effective incentive or retention tool in a static or falling market.
	✓ Options are relatively easy to understand and are often familiar to employees.	✗ They are more dilutive than LTIPs.
	✓ Modest tax advantages are available under "approved plans" or Enterprise Management Incentive ("EMI") plans in the UK.	✗ Absent material share price growth, options are less efficient than LTIPs from an accounting cost perspective.
	✓ Options involve the cash receipt of the exercise price by the company.	✗ The value of options is highly geared to share price increase and could, therefore, provide value merely due to a rising market.
		✗ Delivery of rewards can be seen as somewhat of a "lottery" which is outside the control of participants.
		✗ Investors generally prefer alternative approaches.
LTIPs	✓ Awards retain their value even if the market as a whole is falling and so remain an effective incentive and retention tool.	✗ Some argue that it is not appropriate for executives to be rewarded if the share price has decreased since grant.
	✓ There is arguably a closer correlation between management's performance and reward than is the case with options, where the main driver of value is absolute share price growth which can be affected by general stock market movements unrelated to management performance.	✗ If market purchased shares are used to satisfy the awards, this may require significant cash outflow (at least with options, the company receives the exercise price, albeit at a later date). Of course, these considerations do not apply if new issue shares are used.
	✓ LTIPs are less dilutive than options.	✗ Lacks the leverage of options in the event of significant share price growth.
	✓ More efficient from an accounting perspective (absent material share price growth).	
	✓ Generally preferred by investors.	

Long-Term Incentives

Chart 12 shows the split between companies using options and LTIPs. Over half of AIM 100 companies solely operate an Option Plan, with 80% of companies able to grant options. However, in FTSE Small Cap companies, by far the most common form of incentive operated is the sole use of an LTIP. The use of LTIPs is much less common amongst AIM 100 companies.

Only 33% operate a Performance Share Plan and only 8% operate a Share Matching Plan. However, the use of Performance Share Plans has increased since our last report, which may be evidence that an increasing number of AIM companies are becoming more aware of the inherent problems with traditional share options (for example, higher accounting costs/dilutive impact and volatility).

Chart 12. Types of Long-Term Incentives Available to Senior Executives



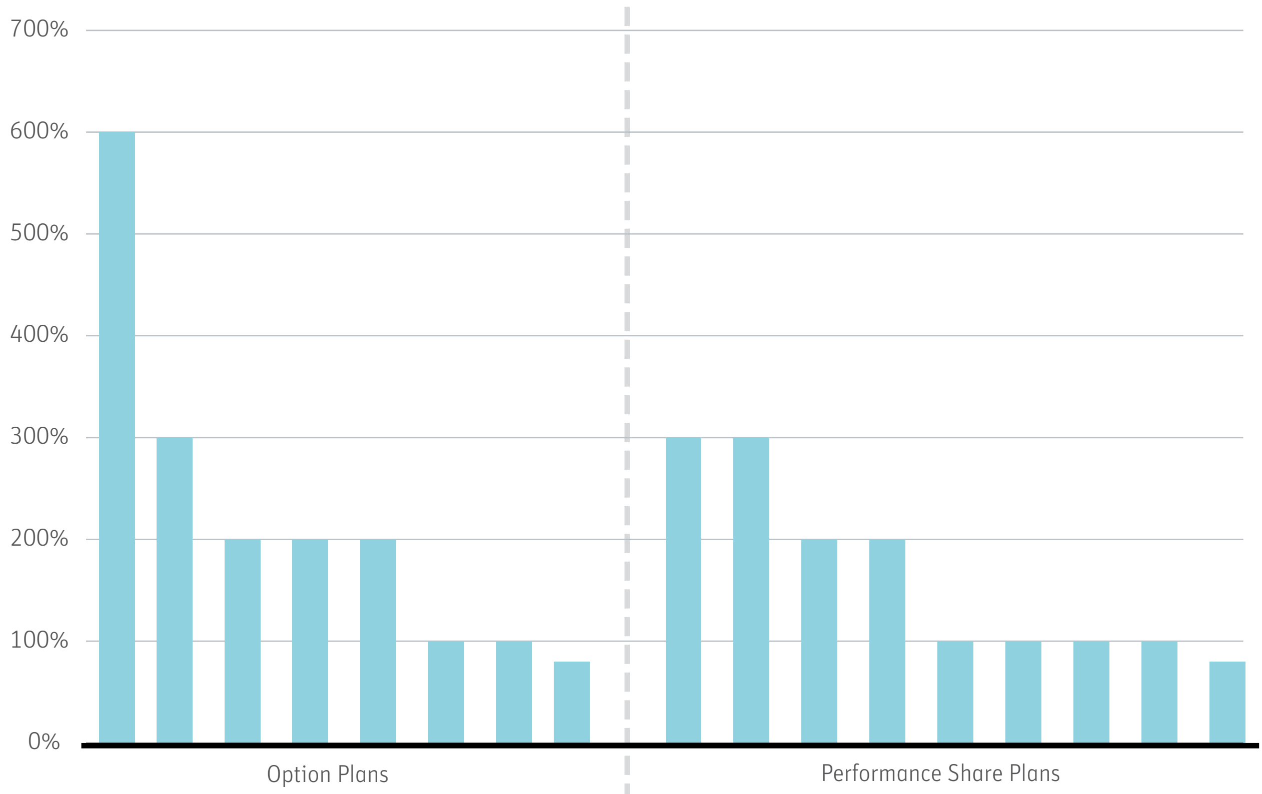
Annual Limits

Best practice suggests that long-term incentive plans operate with annual grant limits. However, only a minority of AIM 100 companies disclose the maximum awards available under their Option Plan or Performance Share Plan in their Report & Accounts. Chart 13 shows the companies where the limits are disclosed. The median limit in Option Plans is 200% of salary and in Performance Share Plans is 100% of salary. These are the same median limits as in FTSE Small Cap companies.

On the main market it is common practice for companies to make long-term incentive grants every year so as to provide a "rolling" programme of grants with overlapping three year vesting periods.

However, annual grant policies seem far less common in AIM 100 companies. Instead, AIM companies appear to often make grants only once every three years, with only around a quarter of AIM 100 Highest Paid Directors receiving annual awards over the last three years. Over time, we expect more AIM companies to adopt annual grant policies.

Chart 13. Annual Limits in Option Plans and Performance Share Plans (as a % of Salary)



Long-Term Incentives

Award Levels

As many AIM 100 companies do not make awards every year, this can distort the "typical" picture of overall long-term incentive award levels.

Table 14 shows quartile analysis of the actual expected value of awards for both all Directors and just for those Directors that received an award last year.

Table 14. Quartile Analysis of Expected Value of Long-Term Incentive Awards (as a % of Salary)

	AIM 100 – All Directors			AIM 100 – Where an LTI Grant was Received Last Year		
	LQ	**M**	UQ	LQ	**M**	UQ
Highest Paid Director	0%	**15%**	48%	24%	**40%**	88%
Finance Director	0%	**21%**	48%	24%	**39%**	68%
Other Directors	0%	**0%**	33%	24%	**39%**	57%

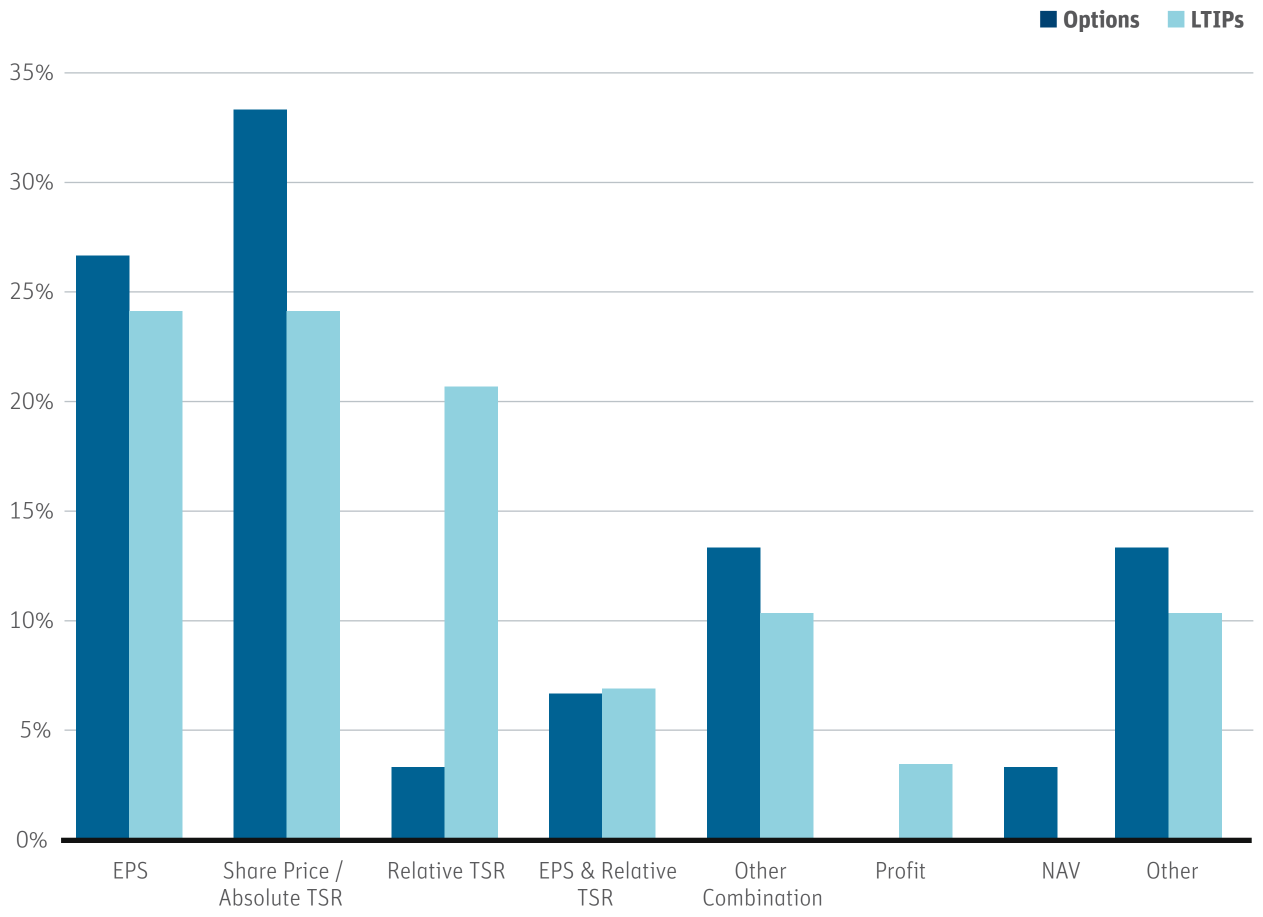
Looking at the data where an award was made last year, it shows that the median aggregate expected value of awards was around 40% of salary for AIM 100 Directors. This equates to an option grant of around 200% of salary or an LTIP grant of around 75% of salary in face value terms. These award levels are similar to those granted in FTSE Small Cap companies of an equivalent size.

Performance Conditions

It is a key pillar of UK best practice that long-term incentive awards are made subject to challenging performance conditions. Around 70% of AIM 100 companies disclose the use of performance conditions in their LTIPs (compared to around 95% in the FTSE Small Cap).

Chart 15 shows that share price/absolute TSR is the most popular measure in Option Plans used by AIM 100 companies, followed by EPS. In LTIPs, the most common measures are also EPS and share price/absolute TSR, closely followed by relative TSR.

Chart 15. Performance Measures in Option Plans and LTIPs



There is limited data on how the performance conditions are precisely structured in the AIM 100. However, in summary:

- EPS tends to be measured by growth in excess of RPI or CPI. A minority of companies set absolute EPS targets.
- In LTIPs which use TSR, 44% use a relative measure and 56% set absolute TSR targets. Amongst fully listed companies it is far more common to use TSR on a relative basis, with the use of absolute TSR typically limited to high growth/recovery scenarios only.
- In LTIPs which use a relative TSR measure, the typical vesting range is median for awards to begin to vest and upper quartile (over 80% of plans) for awards to vest in full.
- In Option Plans and LTIPs, the typical level of award that vests for minimum/threshold performance is 30% of the maximum.

Long-Term Incentives

Share Ownership Guidelines

Investors support guidelines which encourage/require executives to build up a shareholding in their company, believing that while participation in share incentive arrangements goes some way towards aligning their interests with those of executives, they believe there is no substitute for executives actually owning shares.

Only four AIM 100 companies disclose having a shareholding guideline/requirement. This compares to around 45% of FTSE Small Cap companies of an equivalent size. Of the four companies with a guideline, only two state the guideline level. One states 200% of salary for all Executive Directors and one 300% for the CEO.

While the introduction of shareholding guidelines at a company where executives have large "founder" shareholdings may seem unnecessary, they are perceived to be a good way of encouraging new/non-founder Directors to build up a meaningful holding.

Dilution

Institutional shareholder guidelines recommend that, in a period of 10 years, no more than 5% of a company's share capital should be issued under discretionary (i.e. not all-employee) share schemes and no more than 10% in 10 years for all share schemes operated by a company. Treasury shares currently count as newly issued shares for this purpose.

Report & Accounts disclosure on dilution limits in AIM 100 companies is poor, although more companies do disclose this in circulars if shareholder approval is sought for a long-term incentive plan (which AIM companies are not technically required to seek). Based on the limited Report & Accounts disclosure, around 80% of AIM 100 companies comply with the 10% limit but only around 30% comply with the 5% limit.

Pensions

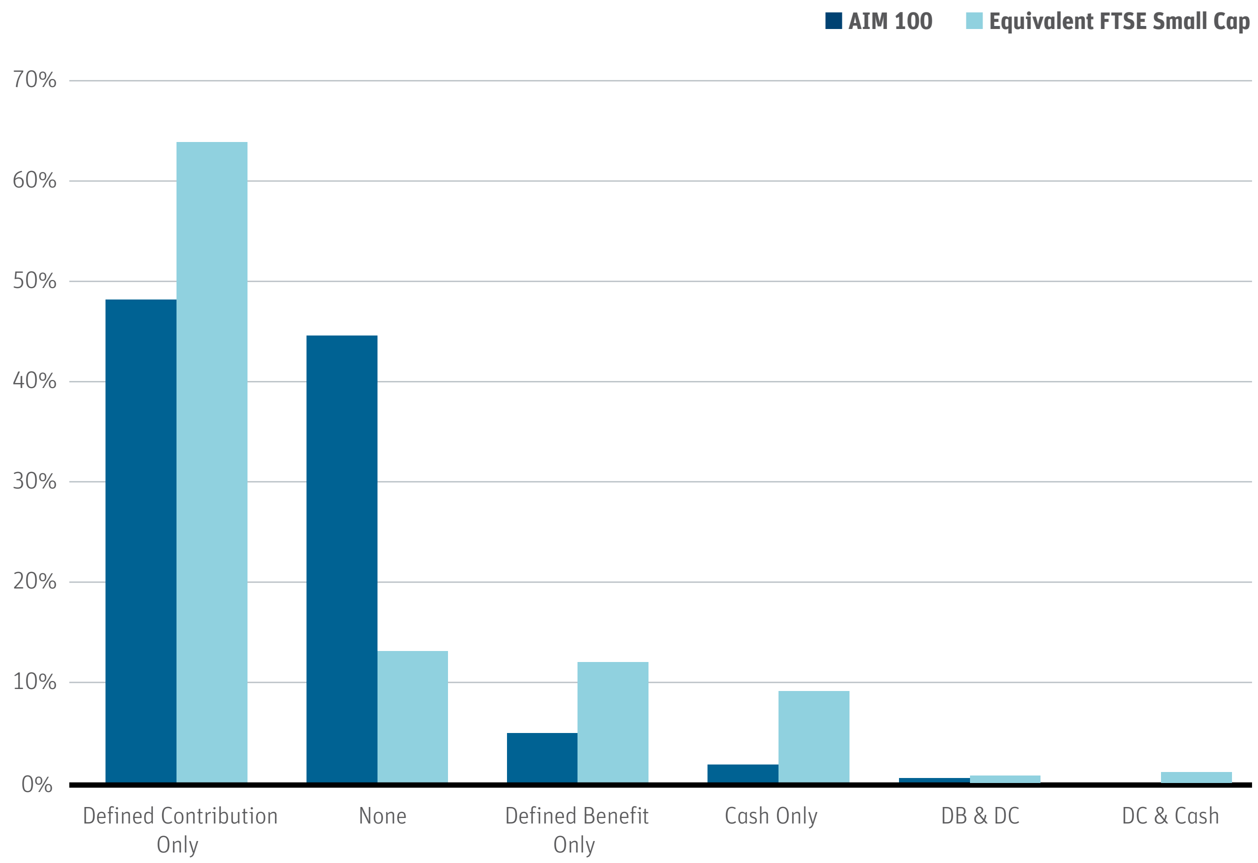
Key Points to Note

- Around half of AIM 100 Directors are provided with Defined Contribution pension arrangements.
- However, around 45% of Directors receive no pension provision.
- The median company Defined Contribution is around 15% of salary.
- Defined benefit pensions are very rare on AIM.
- The new pensions legislation is causing many companies to review their executive pension provision.

Types of Pension Provision

Chart 16 shows the most common type of pension arrangement provided to Executive Directors. The most commonly used provision is the use of a Defined Contribution plan, which reflects the general market move away from (typically more costly) Defined Benefit plans. It is also interesting to note that around 45% of Directors do not receive any formal pension provision.

Chart 16. Types of Pension Arrangements



Pensions

Defined Contribution Plans

Table 17 shows contribution rates to Defined Contribution plans. The median rate of contribution is around 15% of salary.

This is broadly equivalent to the pension provision offered to FTSE Small Cap companies of a similar size.

Table 17. Quartile Analysis of Company Pension Contributions to Defined Contribution Arrangements

	AIM 100			Equivalent FTSE Small Cap		
	LQ	**M**	UQ	LQ	**M**	UQ
Highest Paid Director	10%	**15%**	19%	10%	**14%**	19%
Finance Director	9%	**13%**	15%	11%	**15%**	20%
Other Directors	4%	**14%**	15%	12%	**15%**	18%

Future Developments

The pensions legislative landscape is undergoing some fundamental changes. The Government has significantly reduced tax relief available on pensions with an annual allowance of £50,000 from April 2011 (reduced from the current £255,000). The future of non-registered pension arrangements (such as EFRBS) is being considered under a separate anti-avoidance review.

As a result, many companies are once again feeling the need to review their executive pension provision. It is difficult at this stage to predict the likely outcome of these reviews. However, it may well prove to be the case that a number of companies close their final salary plans to existing employees (to the extent that DB plans are still operated), offering defined contribution plans instead but with the option of a cash alternative for individuals caught by the new pension limits.

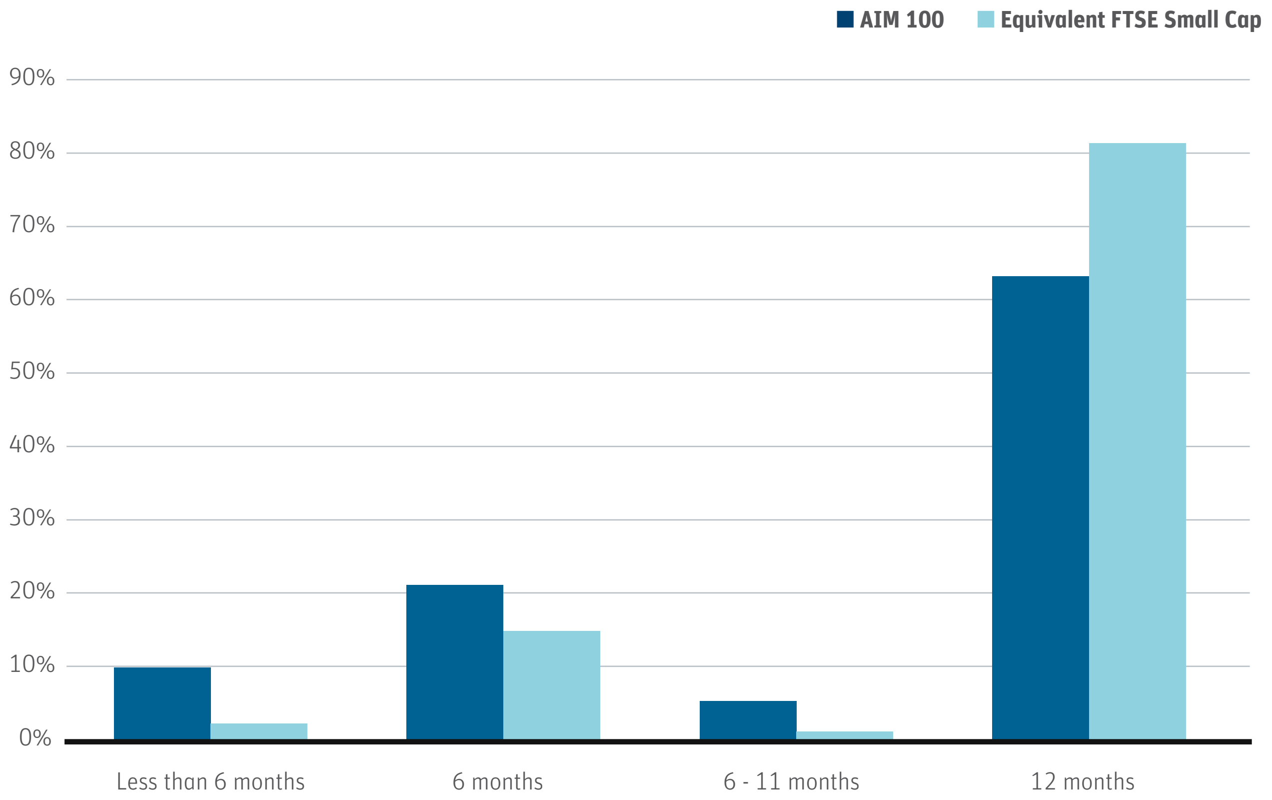
Contracts

Key Points to Note

- Twelve month notice periods are most common.
- However, around a third of notice periods are less than twelve months.

The most common length of notice period in Executive Directors' contracts is twelve months (around 65% of Directors). However, around 35% have notice periods of less than twelve months (compared to only around 20% in FTSE Small Cap companies).

Chart 18. Length of Notice Period



Shareholders now also focus on the structure of termination payments for departing executives to ensure there are no "rewards for failure". This includes (i) the way in which any payment is calculated, (ii) whether there is a requirement for the company to take account of the departing Director's duty to mitigate his/her loss, (iii) whether the compensation payments are phased and (iv) whether there are rights to enhanced payments on a change of control. However, disclosure on this is sparse in AIM companies.

Non-Executive Directors

Key Points to Note

- AIM companies tend to pay an all-inclusive fee to Non-Executive Directors.
- Fees are lower in AIM companies compared to equivalent sized FTSE Small Cap companies.

Table 19 provides a quartile analysis of Non-Executive Directors' fee levels in AIM 100 companies, divided between Non-Executive Chairmen, Senior Independent Directors, Non-Executive Directors that chair the Remuneration or Audit Committee, and those that chair no committees. It also shows that fee levels in FTSE Small Cap companies are higher, particularly for Chairmen.

Table 19. Quartile Analysis of Non-Executive Directors' Total Fees

	AIM 100			Equivalent FTSE Small Cap		
	LQ	**M**	UQ	LQ	**M**	UQ
Non-Executive Chairmen	£35,000	**£63,000**	£95,000	£70,000	**£94,000**	£120,000
Senior Independent Directors	£25,000	**£40,000**	£45,000	£35,000	**£42,000**	£48,000
Remuneration Committee Chairmen	£28,000	**£35,000**	£46,000	£35,300	**£41,500**	£44,800
Audit Committee Chairmen	£25,500	**£34,000**	£42,500	£35,500	**£43,000**	£51,500
Non-Executives – Chair of no Committees	£25,000	**£34,000**	£42,000	£30,500	**£35,000**	£40,000

Whilst larger companies, and even FTSE Small Cap companies of an equivalent size, now often specify "base fees" and additional fees for chairing a committee, this practice is still rare in AIM 100 companies, where Directors tend to receive an all-inclusive fee.

For fully listed companies, participation in annual bonus and long-term incentive arrangements is very rarely provided – the payment of such incentives being contrary to best practice guidelines. It is more common (though still very much minority practice) for AIM 100 companies (which are not subject to such stringent best practice guidelines) to make awards under incentive plans.

Four AIM 100 companies awarded some or all of their NEDs a bonus and two companies made awards under long-term incentive arrangements to some or all of their NEDs in the last financial year.

About Hewitt New Bridge Street

Hewitt New Bridge Street is the UK's leading executive remuneration consultancy. 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 180 FTSE All-Share companies and many AIM companies.

We are part of the HR Consulting business of Aon Hewitt, the global consultancy with over 29,000 associates in over 120 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 us.

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