

Getting the balance of executive pay right

PwC executive reward survey

*Emerging FTSE 350
remuneration practices.*

January 2012

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Foreword

The global financial crisis, resulting recession and indebtedness in many advanced economies, has led to executive pay becoming a major political issue, with both shareholders and legislators drawing attention to perceived excesses. This has led to a rise in regulation, initially impacting the financial services sector, and the strengthening of shareholder best practice guidelines.

Over the past year there have been a number of government-led investigations into executive pay. Two reports published by the High Pay Commission have in particular highlighted a number of failures in executive remuneration structures.

Most recently the Department for Business, Innovation and Skills (BIS) has issued a discussion paper intended to address the perceived weakness in governance around pay and a consultation document on narrative reporting. It's unclear how many of the proposals put forward in these papers will be adopted in future but some changes are inevitable.

We anticipate that this focus on executive pay will continue for the foreseeable future. Greater scrutiny will need to be placed on the level of individual pay, how pay is aligned with that of the wider employee base and the link between pay and business performance.

Against this backdrop, as companies return to profitability and general positive performance, there is a need to ensure that pay remains commercially competitive. Companies will need to appropriately manage employee expectations to make sure they retain their top talent.

Evidence suggests that a number of companies have sought to adjust base pay in line with inflation over the past year, a trend we expect will continue over the forthcoming year. How far companies go in making such year-on-year adjustments will depend on future economic conditions and the level of continued scrutiny placed upon them by external commentators.

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Expected salary increases

2-4%
in 2012

3-4%
in 2011

Market practice and outlook for 2012

In the autumn of 2011, we surveyed senior reward professionals across a range of UK companies to capture their views on the key remuneration challenges and planned changes for 2012.

Salary

Salary increases are likely to remain modest with increases ranging from 2% – 4%. But, this presents a challenge for some companies in terms of managing employee expectations following a period of restraint and low payouts from performance-related pay as a result of difficult economic conditions.

Annual bonus

One-third of companies plan to change their bonus structure. The majority want to align bonus plans with the market. The two other main reasons for change were to better align bonuses with company strategy or for specific retention and recruitment purposes.

Increases to annual bonus opportunity are being planned by 15% of companies and around a quarter of companies are planning to increase the target or maximum performance level for this year's bonus.

Long-term incentives

Around 15% of companies are considering introducing new long-term incentive plans, of which 90% are expected to be performance share plans.

20% of companies are planning increases in the size of long-term incentive awards.

Over one-third of companies are considering making changes to long-term incentives, with 20% changing the length of the performance periods and 73% making changes to their performance conditions.

Risk

A quarter of companies have made changes to their remuneration structure to take account of risk management. The main changes include the introduction of clawback and the incorporation of risk measures into their key performance indicators (KPIs).

Clawback

Over the last couple of years, 20% of companies in the FTSE 100 and 11% of FTSE 250 companies have implemented clawback in some form. A further 30% of companies are planning to introduce clawback in 2012.

Typically clawback applies where there has been material restatement to the accounts and/or dismissal for cause.

The majority of companies have indicated that they will effect clawback by scaling back the vesting of outstanding deferred bonuses.

Furthermore, 24% of companies plan to introduce clawback of long-term incentives, with half effecting clawback by reducing vesting outcomes at the remuneration committee's discretion.

Pension

In response to the impact of the Finance Bill 2011 on pensions, 90% of companies are considering introducing a salary supplement in lieu of, or in addition to, pension benefits.

Only 10% of companies are considering implementing an unfunded unapproved retirement benefit (UURBS).

Key challenges and expectations

The greatest challenge faced by companies is to ensure that the remuneration packages offered to their employees remain competitive in order to retain and motivate key employees.

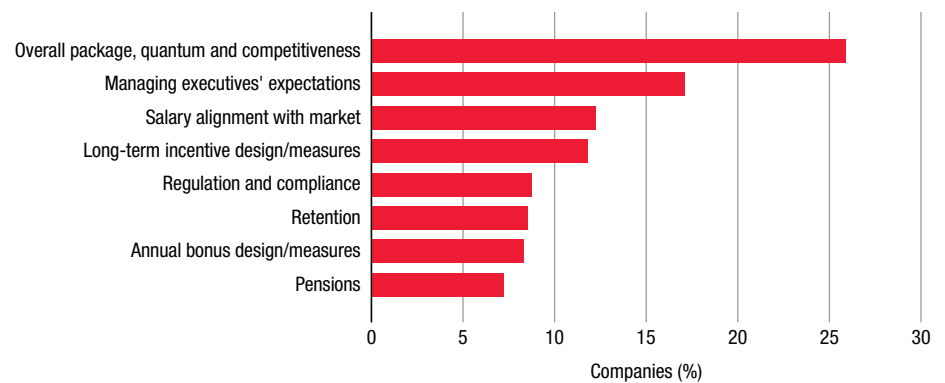
This challenge is made more difficult with most companies budgeting for low pay increases for a second or third year

in a row combined with low or nil payouts envisaged from outstanding long-term incentives. Companies now have to balance employee expectations against the pressures applied by shareholders, the government and public opinion.

So what is the future for executive remuneration?

The biggest challenge facing UK companies is the quantum and competitiveness of the overall package.

Challenges faced by companies



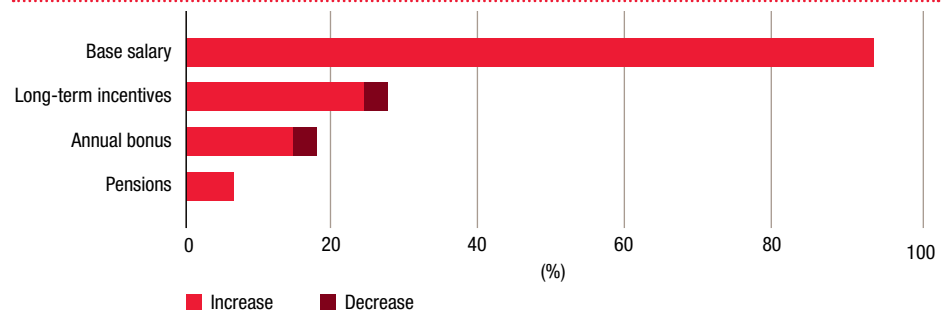
Source: PwC Executive pulse survey 2011

In light of these external pressures, reward strategies and structures will face many challenges in the upcoming year. Total compensation expectations are starting to rise again but may be constricted if the economy relapses into another recessionary period. Our survey has revealed that executive pay will

increase in the next 12 months. Of those companies expecting to increase executive pay, 65% intend to increase base salaries only, while a further 30% intend to increase salaries along with other components, such as bonus and long-term incentives.

Pay increases will mainly be on base salaries.

Pay increases/decreases in the next 12 months



Source: PwC Executive pulse survey 2011

But the picture is far from even, with pay freezes likely in 13% of companies. Likewise, brakes are being put on bonuses, with 85% of companies expecting no increase.



Base salary

There are signs that salary levels are increasing at a greater rate compared to those increases seen in 2009 and 2010, where a number of companies adopted salary freezes. But, the level of salary increases seen in 2011 and those expected in 2012 are much lower in comparison with pay rises prior to the economic downturn.

Despite the low level increase in salary levels in recent years, salaries continue to be under the spotlight with reference to executive director salaries having increased by 64%¹ over the past decade.

As a result, future salary increases will come under scrutiny given the building public and political pressures to address the widening gulf between the highest and lowest earners.

Any proposed increase, however modest, will need to be justified to shareholders. Remuneration committees are continuously being encouraged to show restraint by resisting making increases above the rate of inflation. Remuneration committees are also urged to make sure that any adjustments to salary levels are aligned with increased pay levels among the wider workforce.

¹ Income Data Services

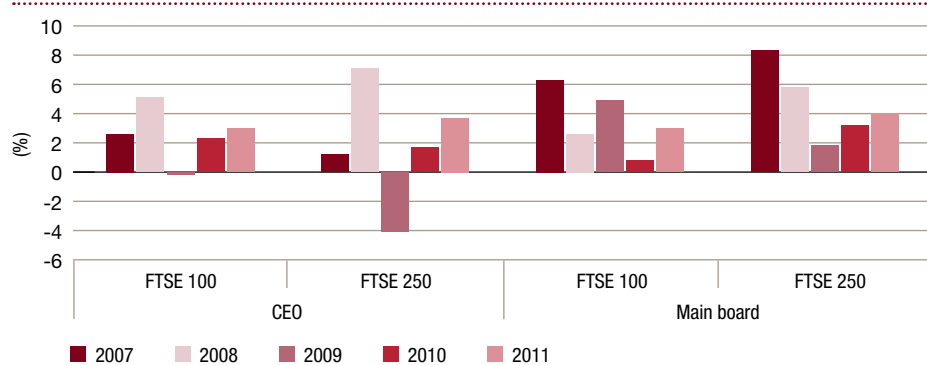
The median FTSE 100 and FTSE 250 actual base salary increases in 2011 across all levels ranged from 3% to 4%.

Median actual base salary increases in 2011

	FTSE 100 (% increase)	FTSE 250 (% increase)
CEO	3.0	3.7
Main board	3.0	4.0
Executive committee (ExCo)	4.0	3.4
Reports to ExCo	3.0	3.1
Other	3.0	2.7
Divisional CEO	3.4	3.7
Divisional board	3.0	3.0
Divisional other	3.0	3.0

Source: PwC Executive reward survey 2011

Change in base salaries



Source: PwC Executive reward database

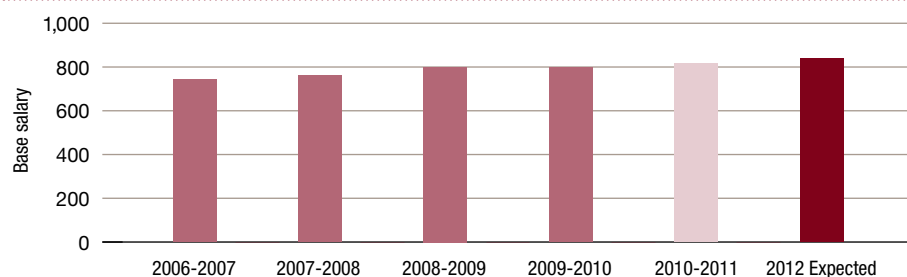
Increases for below board FTSE 100 employees were slightly higher than those at board level. The opposite was true for FTSE 250 companies where salary increases were slightly lower for below board than those at board level.

Salary increases expected in 2012 across the FTSE 100 and FTSE 250 are identical with rises expected to be between 2% to 4%, broadly in line with 2011 rates.

In the years following the global financial crisis and the ensuing economic downturn, a number of companies experienced significant reduction in value and subsequently lost their positions in their respective FTSE indices. This meant a number of companies who remunerated their executive directors at levels typical of the FTSE 100 were included in the FTSE 250. Similarly, some FTSE 250 companies were promoted into the FTSE 100. This created a distortion in the salary levels during 2009/10 as it appears that actual salary levels decreased among the FTSE 100, while those for FTSE 250 companies increased. In reality salary trends over the past three years show that levels have been generally flat.

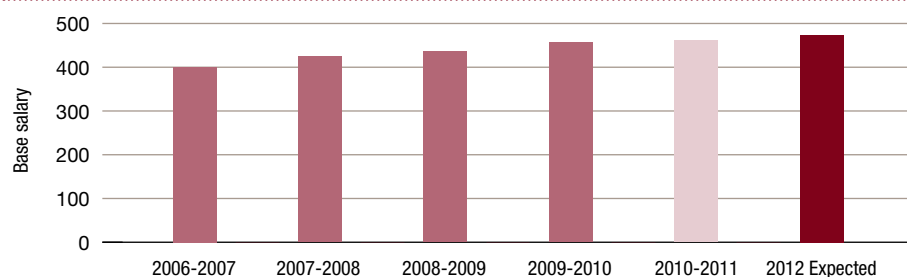
It's expected that even moderate pay increases in line with inflation are likely to prove controversial given tough economic conditions. But whether anticipated salary rises play out next year will depend on whether markets improve. Increases that aren't aligned to company and share price performance are likely to meet strong resistance from shareholders.

CEO FTSE 100 base salary



Source: PwC Executive pulse survey 2011, Executive reward database, Executive reward survey 2011

CEO FTSE 250 base salary



Source: PwC Executive pulse survey 2011, Executive reward database, Executive reward survey 2011

Annual bonus

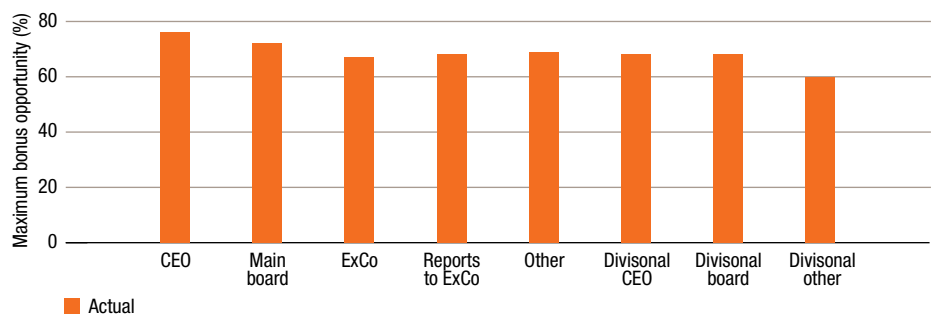
The average annual bonus payments in 2011 were higher than those paid in the previous year. In turn the number of nil bonus payments has decreased compared to 2010. Our data suggests that bonus payments are reaching levels expected of companies that have returned to profitability.

But bonus payments will remain an area of contention in difficult economic times. One of the biggest causes of shareholder concerns have been that bonuses

pay out even when company performance has been disappointing. This has been a focal point among investors over the past few years and has subsequently led to best practice guidelines now explicitly stating that there should be a correlation between bonus payment and profits. If profits have declined there is an expectation that bonus payments should also be reduced regardless of whether specific performance targets have been achieved.

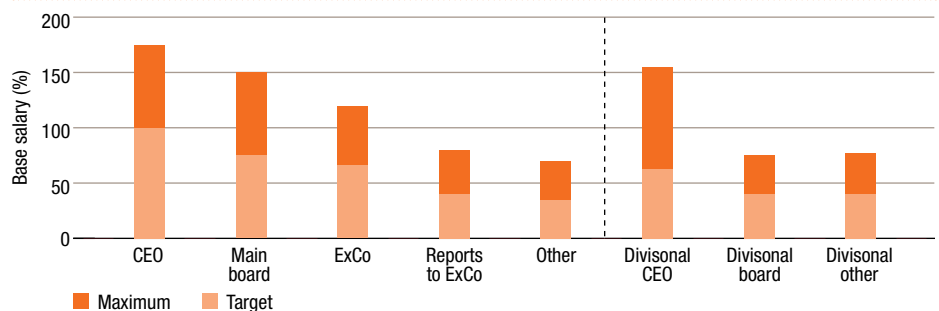
Actual annual bonus payments have increased at all reporting levels in 2011 compared to those seen in 2010.

FTSE 100 and FTSE 250 median actual annual bonus payments as a percentage of maximum bonus opportunity



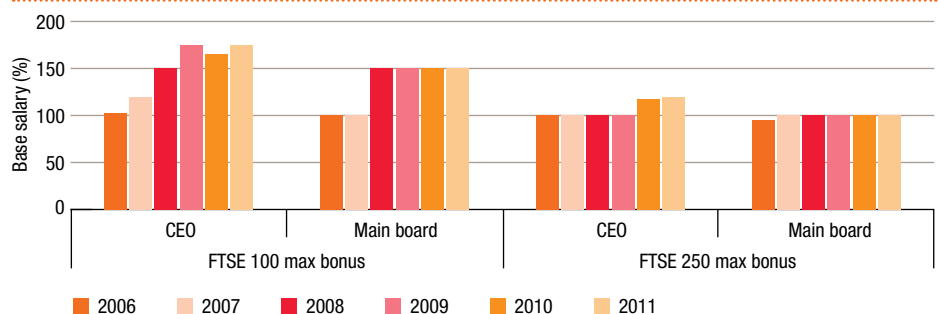
Source: PwC Executive reward survey 2011

FTSE 100 and FTSE 250 target and maximum annual bonus opportunity as percentage of base salary (median)



Source: PwC Executive reward survey 2011

Maximum annual bonus opportunity as percentage of base salary (median)



Source: PwC Executive reward database

In 2011, only 7% of FTSE 100 CEO's and 10% of FTSE 250 CEOs received no bonus payments.

FTSE 100 CEOs

7%

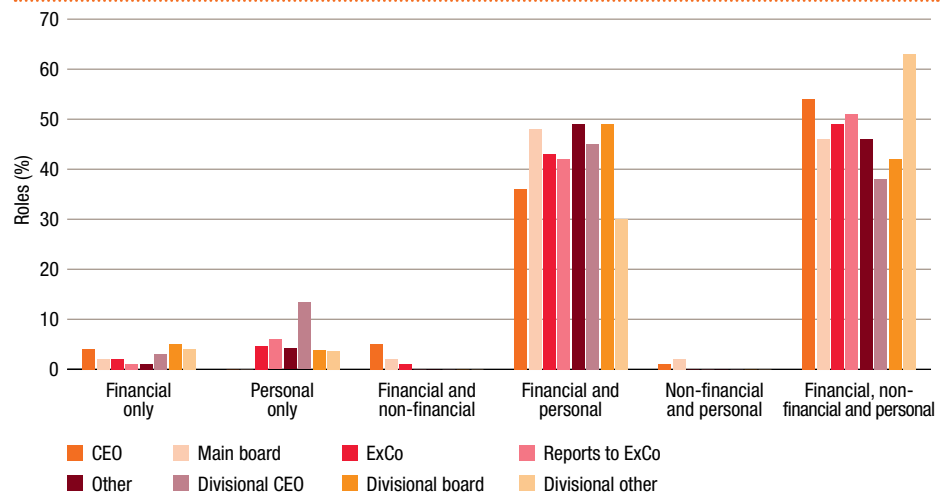
FTSE 250 CEOs

10%

The selection of performance targets has also come under scrutiny with companies now expected to demonstrate how the bonus targets chosen are aligned to their business strategy. Our data shows that bonus performance metrics are focusing more on company profits and are more aligned to business performance indicators.

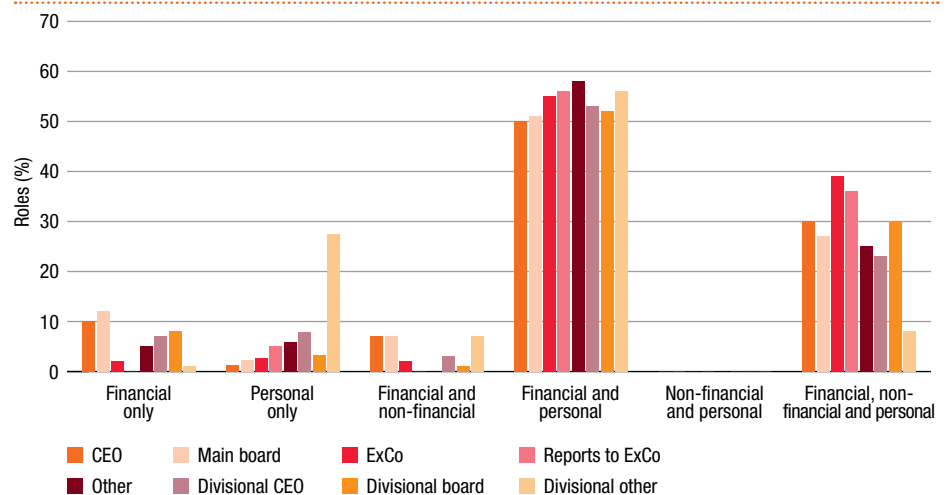
It is expected that bonus performance targets will become more stretching and reflect business strategy. The adoption of tougher performance measures may appease shareholders, politicians and the public provided that bonus payments reflect the underlying performance of a company. Shareholders don't object to top performers being well paid provided that payouts are aligned to performance. But companies for their part need to improve how they explain and justify bonus payments and make sure that investors are able to understand the merits of such payments. Failure to do so may create unnecessary tension between investors and executive directors.

Combinations of performance measures in use FTSE 100



Source: PwC Executive reward survey 2011

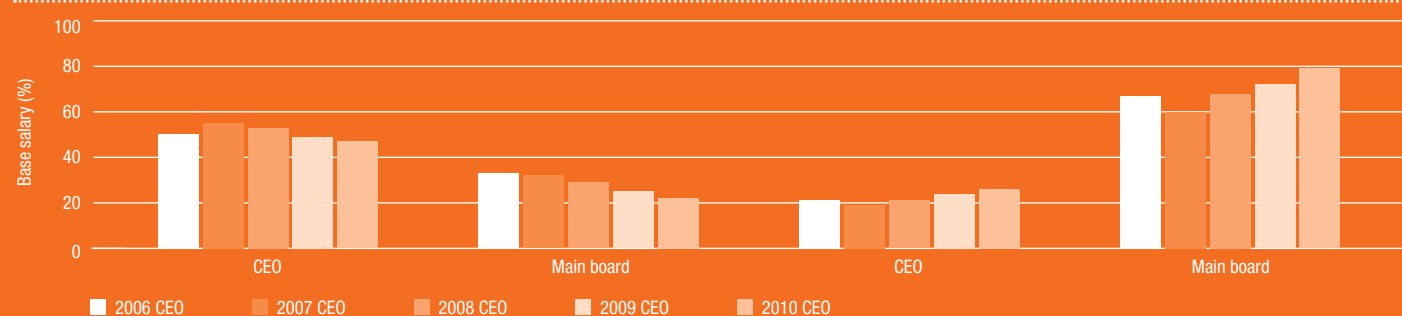
Combinations of performance measures in use FTSE 250



Source: PwC Executive reward survey 2011

Bonus performance measures among FTSE 350 companies

FTSE 350 bonus performance conditions



Source: PwC Executive reward database

Types of bonus financial performance measures adopted at FTSE 100 and FTSE 250 companies

(% plans)	Profit		Cashflow		EBIT/Revenue		EPS		Other	
FTSE	100	250	100	250	100	250	100	250	100	250
CEO	60	59	27	28	24	22	23	18	46	35
Main board	66	65	25	21	22	19	19	15	47	35
ExCo	65	62	26	46	35	41	10	10	48	30
Reports to ExCo	71	57	25	36	25	43	12	8	49	36
Other	66	54	7	35	17	35	12	5	56	27
Divisional CEO	71	70	21	32	30	30	10	7	53	27
Divisional board	70	44	30	44	25	55	3	5	55	41
Divisional other	69	85	10	47	10	38	0	9	62	40

Source: PwC Executive reward survey 2011

Types of bonus personal targets and non financial performance measures adopted at FTSE 100 and FTSE 250 companies

(% Plans)	Personal targets		Customer satisfaction		Risk, health & safety		People measures		Social responsibility		Strategic, operational		Other	
FTSE	100	250	100	250	100	250	100	250	100	250	100	250	100	250
CEO	91	82	19	21	44	35	14	7	11	11	57	57	14	15
Main board	96	80	20	22	44	37	14	8	14	13	54	50	13	20
ExCo	97	96	28	28	32	22	14	6	9	0	69	54	19	26
Reports to ExCo	99	97	29	27	33	26	21	5	4	0	53	54	24	35
Other	99	89	46	38	33	27	55	13	17	0	59	71	5	21
Divisional CEO	97	83	25	29	37	24	18	7	18	3	61	47	16	30
Divisional board	95	85	32	42	21	26	32	1	4	0	53	49	25	16
Divisional other	96	92	24	36	18	27	18	0	9	0	56	36	41	45

Source: PwC Executive reward survey 2011

Key definitions

TSR = Total Shareholder Return
 EPS = Earnings Per Share
 EBIT = Earnings Before Interest and Tax
 ROCE = Return on Capital Employed

ROIC = Return on Invest Capital
 DAB = Deferred Annual Bonus
 PSPs = Performance Share Plans
 LTI = Long-term Incentives



Profit is the most common financial performance measure used in annual bonus plans. Personal objectives followed by strategic and risk associated measures are the most commonly used non-financial measures. Over the past few years there has been a stark increase in the use of non-financial measures as companies seek ensure that bonuses are aligned to business strategy and reward individuals for personal performance.



One-third of companies are planning to change the 2012 bonus structure. But, only a small number are planning to make increases to the annual bonus opportunity (22%) or increase the target or maximum performance level (15%).

The majority of companies anticipate changing the bonus structure in order to ensure alignment with the market, business strategy, retention and/or recruitment. Simplification of the bonus structure has also become an objective among companies.

Long-term incentive plans

Long-term incentive (LTI) arrangements are typically used to incentivise key employees to focus on delivering sustained long-term performance, aligning their interests with those of shareholders. In recent years the effectiveness of LTI arrangements has been extensively debated. Companies have questioned whether in their current form they are the best method of incentivising directors to achieve long-term performance goals. Market opinion centres upon the complexity around remuneration arrangements with LTIs forming a large portion of the package.

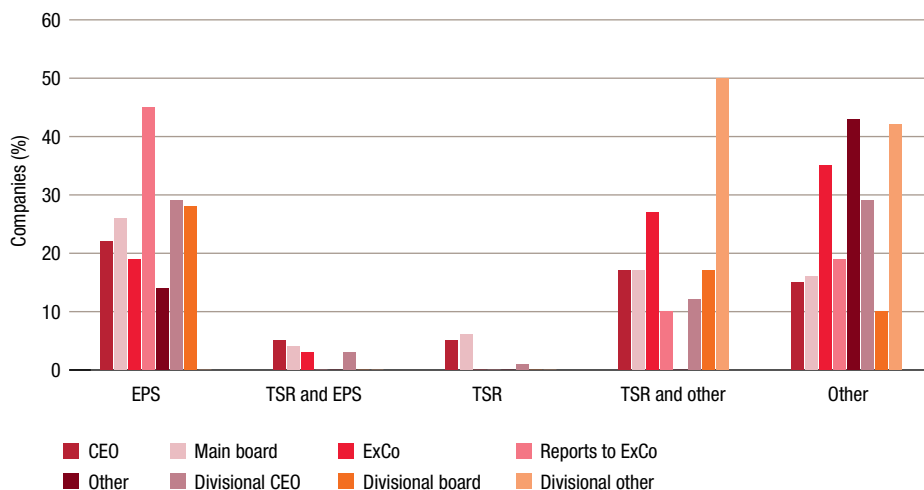
Since the mid-nineties, LTIs have included performance conditions on the vesting of awards in order to align pay with long-term performance. The selection of appropriate performance conditions is crucial in ensuring that key employees are incentivised and rewarded by performance which they are able to directly influence.

In pursuit of this alignment, companies have often been required to adopt certain best practice performance measures, such as a relative total shareholder return (TSR), which do not always reflect key business objectives which drives a company's strategy.

Evidence suggests that although TSR remains prevalent in share incentive plans, it's in decline. TSR is now typically used in conjunction with other measures which may be more aligned to a company's strategic objectives.

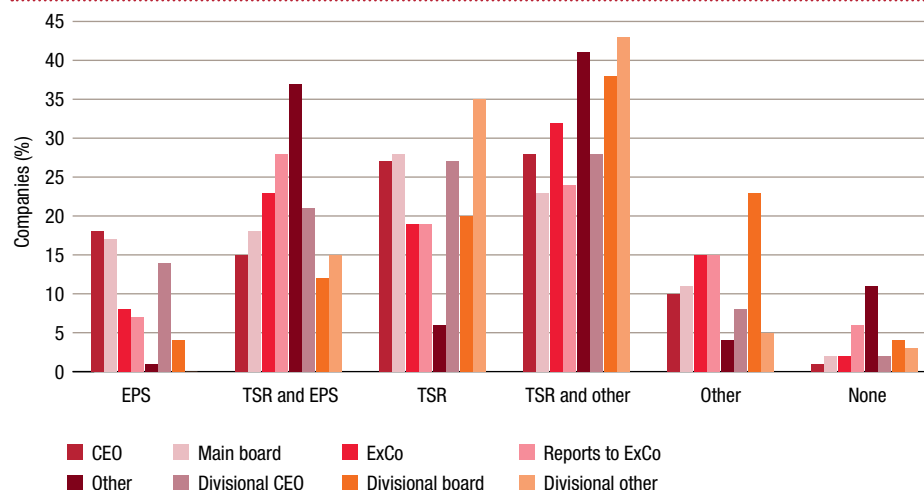
Our survey suggests that 28% of companies intend to change their performance conditions in 2012. We anticipate that this trend will continue in future as companies implement strategically aligned measures.

Types of performance measures in use in deferred annual bonus matching plans



Source: PwC Executive reward survey 2011

Types of performance measures in use in performance share plans



Source: PwC Executive reward survey 2011

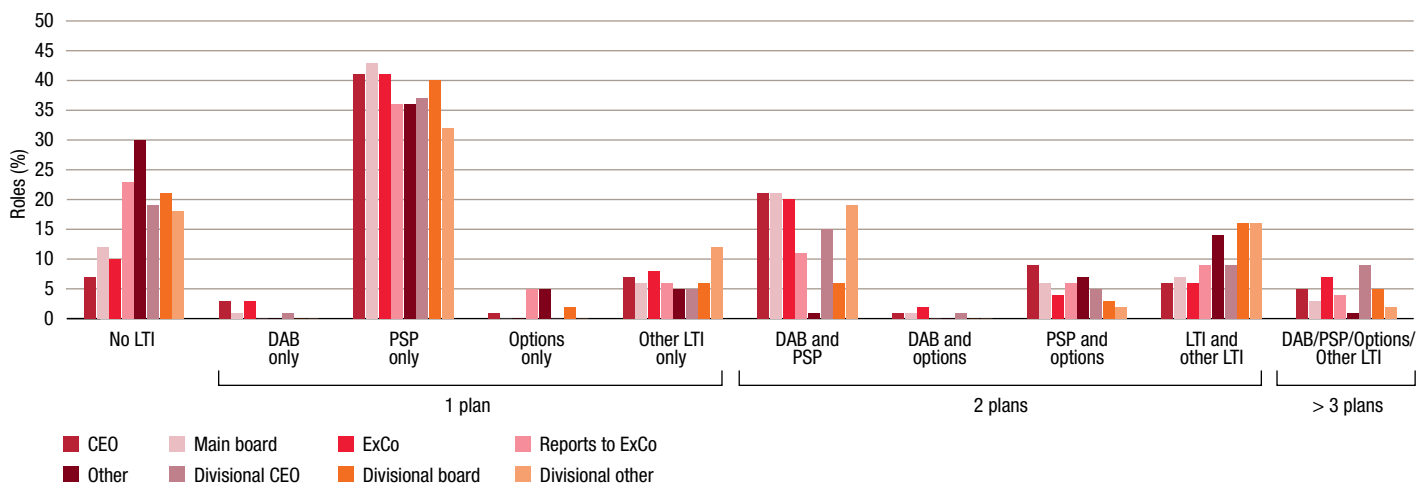
Although the selection of the right performance conditions is crucial in making LTIs effective, has performance-related pay just become too complex? Both shareholders and politicians have called for more simplicity so that company performance is easily measurable and the link between pay and performance is evident.

Companies have traditionally adopted three types of LTIs; deferred annual bonus plans (DAB), performance

share plans (PSP), share option plans (options), all of which are designed to link pay with company performance.

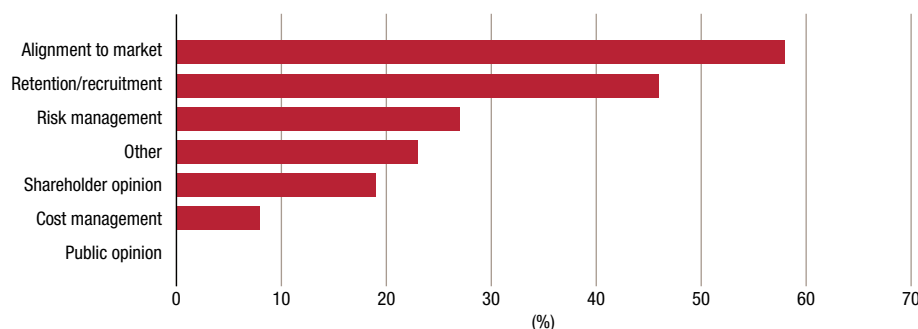
14% of our survey respondents are planning to introduce a new incentive arrangement in 2012. But, performance share plans remain the equity vehicle of choice among survey participants. Of those companies which plan to introduce a new incentive arrangement in 2012, 82% favour introducing a PSP.

Long-term incentive arrangements in use



Source: PwC Executive reward survey 2011

Rationale for changing long-term incentives in the forthcoming year



Source: PwC Executive pulse survey 2011

Over the past few years there has been an increase in number of companies introducing LTI arrangements which are tailored to drive the company's strategy.

Is it now time for companies to adopt a simple approach by directly linking pay to long-term company performance by the adoption of a competitive total package that may not be subject to the achievement of actual performance targets but that simply requires a significant proportion to be held in share for a much longer period?

The majority of PwC survey respondents changing long term incentives are doing so in order to ensure alignment with the market.

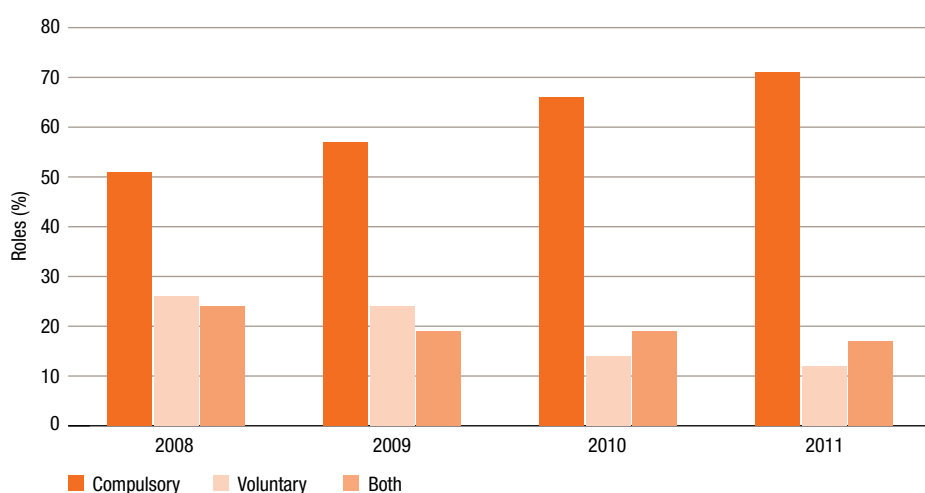
Other important considerations for respondents include retention and recruitment.

Deferred annual bonus plans

Deferred annual bonuses are typically used as a method of encouraging key employees to build up a shareholding in a company and as a retention vehicle.

Deferred annual bonus plans typically require participants to defer part of their bonus award on a voluntarily or compulsorily basis or a combination of both.

Proportion of deferred arrangements



Source: PwC Executive reward database

Around two-thirds of deferred annual bonus arrangements at FTSE 100 and FTSE 250 companies operate on a compulsory deferral basis only. This figure has increased year-on-year since 2008 because there has been a drive to ensure that executive directors are required to retain and defer a portion of their bonus awards. As compulsory deferral has increased over the past few years, the requirement to voluntarily defer part of a bonus award has decreased.

Types of deferred annual bonus arrangements

	Compulsory deferral only (% roles)		Voluntary deferral only (% roles)		Compulsory and voluntary deferral (% roles)	
	FTSE100	FTSE250	FTSE100	FTSE250	FTSE100	FTSE250
CEO	68	70	13	13	19	17
Main board	73	70	10	13	17	17
ExCo	63	58	21	22	16	20
Reports to ExCo	74	66	12	26	14	8
Other	78	69	6	31	16	0
Divisional CEO	71	57	11	21	18	22
Divisional board	78	50	17	25	5	25
Divisional other	55	78	3	22	42	0

Source: PwC Executive reward survey 2011

Under compulsory deferral arrangements the most common level of minimum deferral is 50% of bonus across senior roles. The majority of plans do not have share matching. Where matching is used, the typical match is 2:1 at FTSE 100 companies and 1:1 at FTSE 250 companies. Performance conditions nearly always applying.

Under voluntary deferral arrangements share matching is common. Typical match is usually 1:1 for below board employees at both FTSE 100 and FTSE 250 companies and 2:1 for board directors of FTSE 100 and FTSE 250 companies. Matching awards are always subject to performance measures.

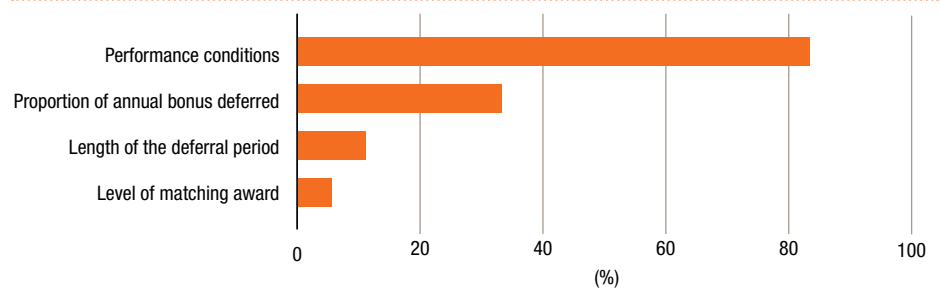
Where deferral arrangements have both compulsory and voluntary elements, at least 25%-33% of bonus must be deferred. Typical share matching is 2:1, which is always subject to performance measures.



23% of companies are planning to change the structure of the DAB in 2012, of these 80% plan to change their DAB performance conditions in the upcoming year.

The most common reason for this is alignment with the business strategy/objectives. But market alignment, risk management and shareholder opinion are also cited as reasons for such changes.

Main changes to existing DAB arrangements

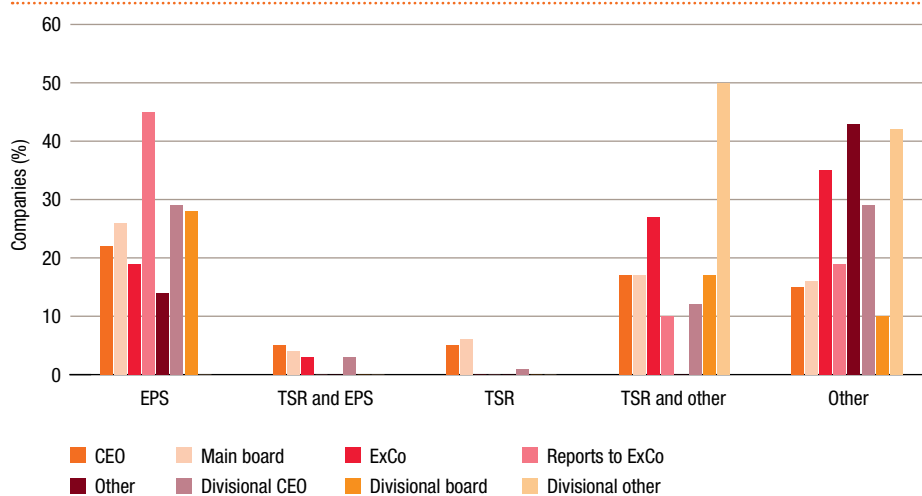


Source: PwC Executive pulse survey 2011

Earnings per share (EPS) as a sole measure, or TSR in combination with another performance measure, are the most commonly used conditions among the FTSE 100. In FTSE 250 companies EPS and combined TSR and EPS measures are more commonly used.

Among FTSE 100 companies the use of 'other' financial targets such as cashflow, economic profit, return on invested capital, profit before tax and other company-specific measures have become more prevalent.

Types of performance measures in use in DAB matching plans FTSE 100



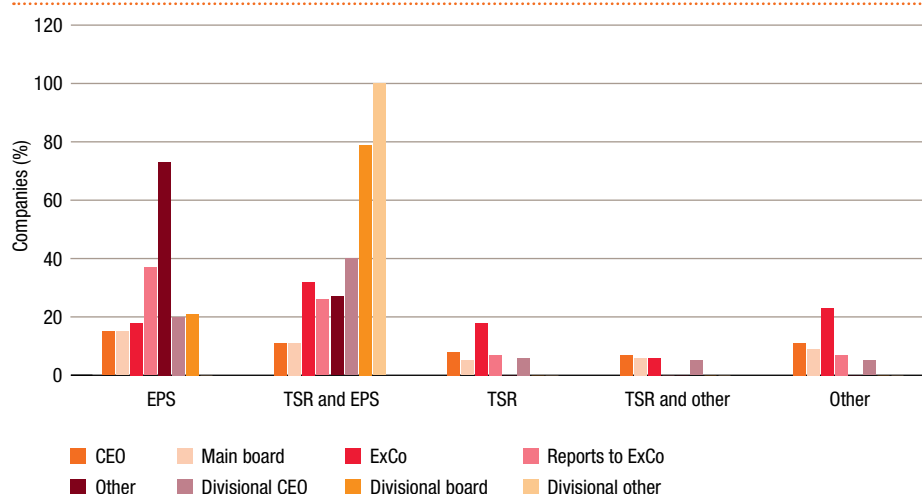
Source: PwC Executive reward survey 2011

This year there has been an increase in companies using real EPS as opposed to absolute EPS.

More companies have increased the TSR performance criteria for maximum vesting beyond the upper quartile level.

Although comparative TSR remains more common, a small number of companies measure TSR based on an absolute outperformance of an index.

Types of performance measures in use in DAB matching plans FTSE 250



Source: PwC Executive reward survey 2011

Performance share plans and option plans

Performance share plans and option plans have traditionally sought to provide key employees with incentive arrangements that drive a company's long-term performance.

Over the past few years, the number of companies that operate option plans has dramatically decreased from 2006 levels

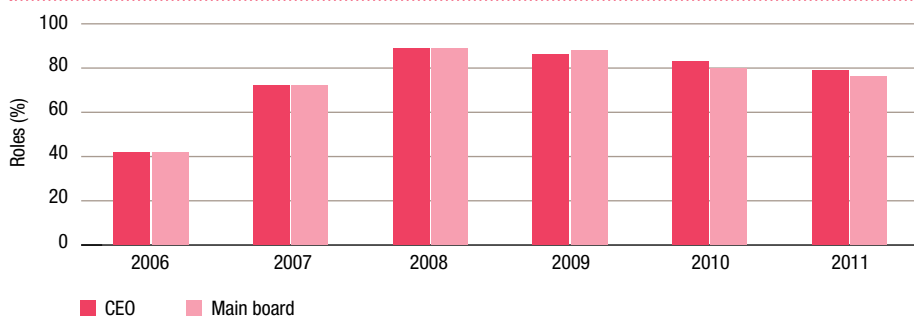
where about two-thirds of companies had an options plan in place. Today only 15% of FTSE 350 companies operate an option plan.

Although the increase is not as dramatic, performance share plans have become the incentive vehicle of choice for the majority of companies.

In 2012, 20% of companies are considering increasing their policy award level.

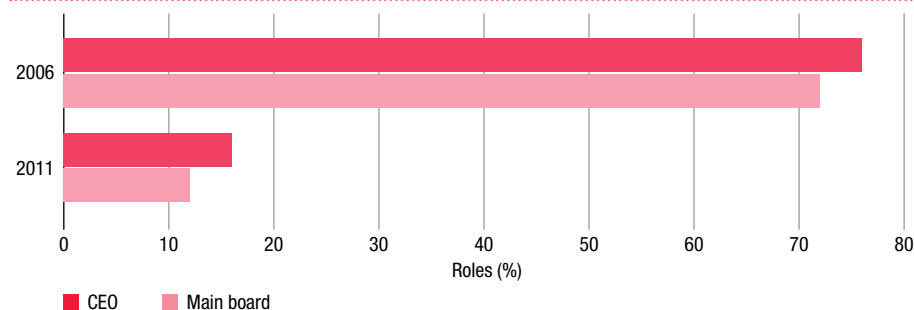
A minority are planning to increase the length of the vesting period or adding an additional holding period.

Companies that operate a performance share plan



Source: PwC Executive reward database

Companies that operate an option plan



Source: PwC Executive reward database

Eligibility and award levels among FTSE 350 companies

Eligibility and median award levels in PSPs

(% plans)	Eligibility (% roles)		Actual award (% salary)		Policy award (% salary)		Maximum award (% salary)	
FTSE	FTSE 100	FTSE 250	FTSE 100	FTSE 250	FTSE100	FTSE250	FTSE100	FTSE250
CEO	82	75	200	108	200	125	225	150
Main board	80	71	175	105	200	123	200	150
ExCo	78	67	132	80	125	80	200	150
Reports to ExCo	63	43	69	48	75	50	100	100
Other	59	25	47	30	75	40	75	75
Divisional CEO	72	48	104	88	100	100	200	150
Divisional board	67	39	70	42	74	60	100	100
Divisional other	70	32	33	30	75	40	80	40

Source: PwC Executive reward survey 2011

Eligibility and median award levels in share option plans

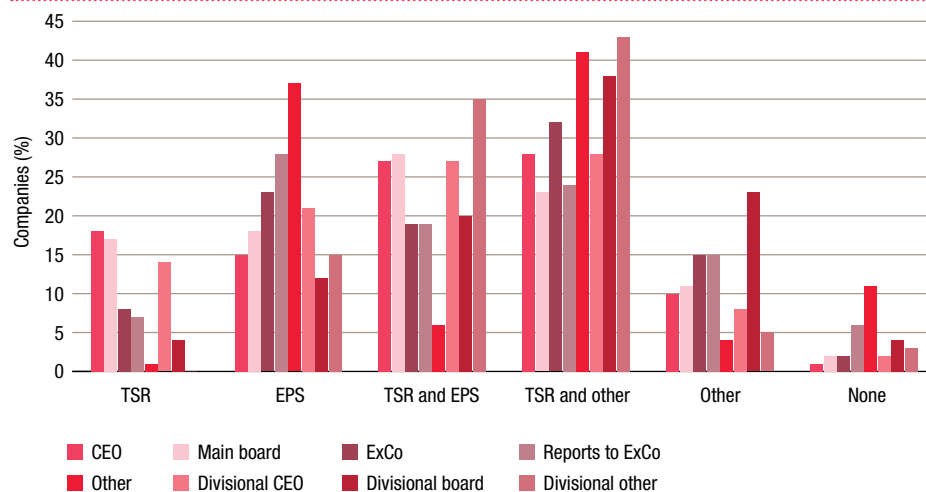
(% plans)	Eligibility (% roles)		Actual award (% salary)		Policy award (% salary)		Maximum award (% salary)	
FTSE	FTSE 100	FTSE 250	FTSE 100	FTSE 250	FTSE100	FTSE250	FTSE100	FTSE250
CEO	14	17	402	148	375	150	300	200
Main board	9	15	224	97	300	125	338	200
ExCo	12	16	250	69	250	125	225	200
Reports to ExCo	15	18	57	97	40	125	85	100
Other	13	6	41	147	34	30	65	175
Divisional CEO	15	18	78	67	33	83	85	100
Divisional board	11	11	32	97	36	125	113	300
Divisional other	2	28	28	65	—	78	—	100

Source: PwC Executive reward survey 2011

Award level quoted as face value of award (share price at grant date multiplied by number of shares granted expressed as percentage of salary).

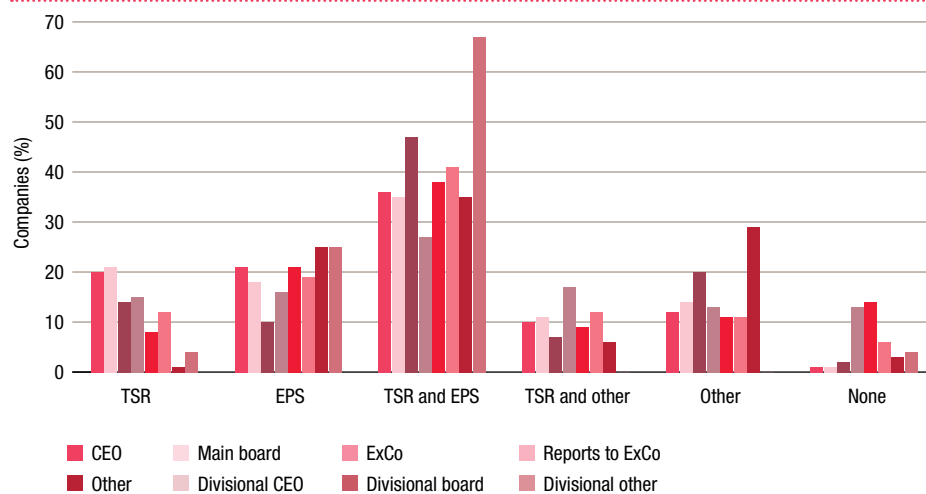
TSR in combination with other performance metrics remains the most popular metric used in PSPs among FTSE 100 companies.

Types of performance measures in use in PSPs among the FTSE 100



Source: PwC Executive reward survey 2011

Types of performance measures in use in PSPs among the FTSE 250



Source: PwC Executive reward survey 2011

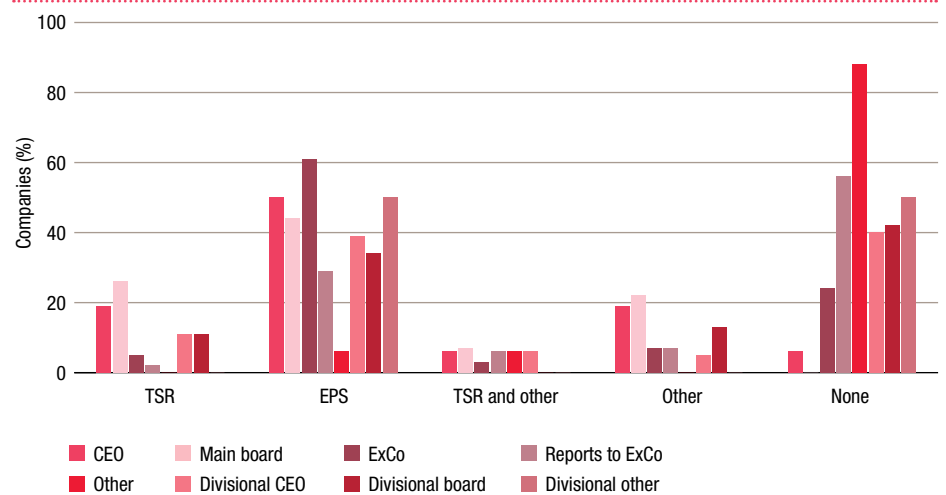
A combination of TSR and EPS is more commonly used among the FTSE 250.



EPS is the main performance condition in use. A significant number of below board level roles do not have any performance measures.

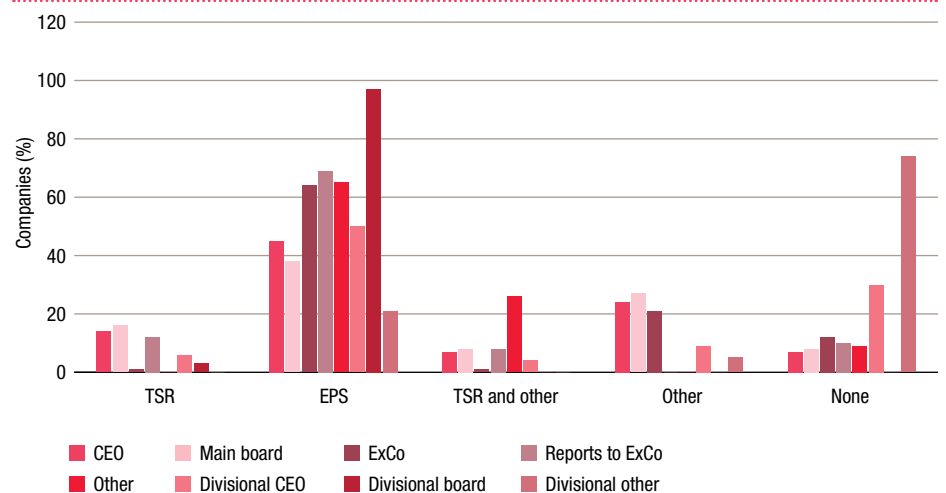
Two-thirds apply different performance measures for below board employees.

Performance conditions in use in share option plans FTSE 100



Source: PwC Executive reward survey 2011

Performance conditions in use in share option plans FTSE 250

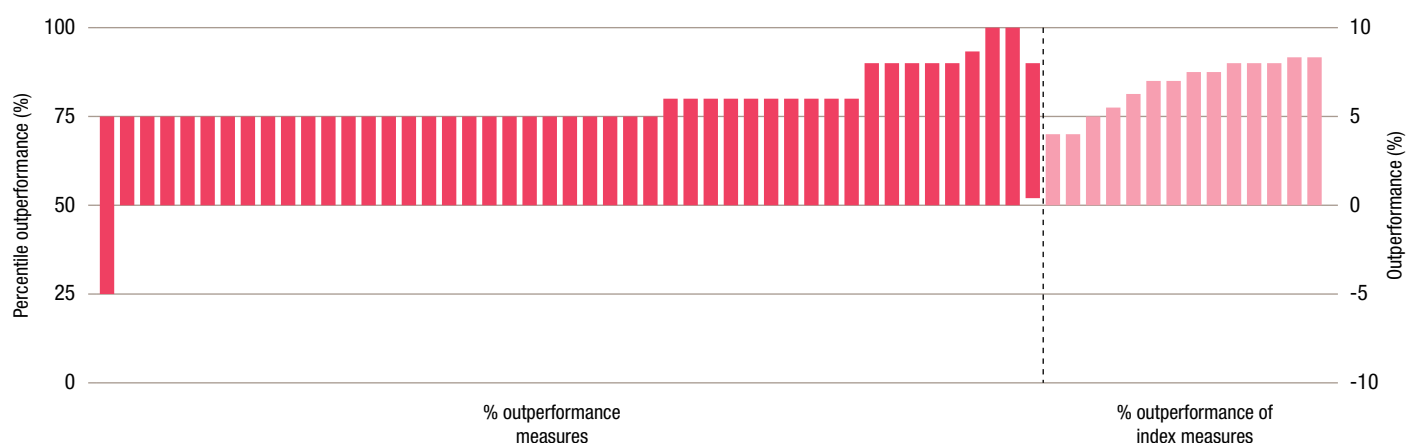


Source: PwC Executive reward survey 2011

Relative TSR performance targets continue to be more common than absolute TSR growth targets.

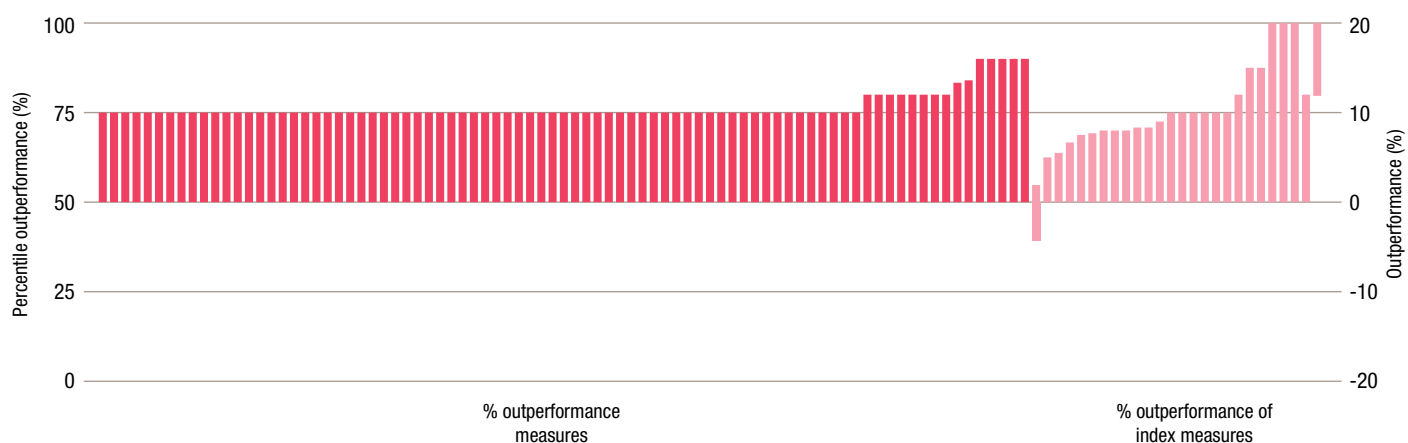
In 2011 the number of companies who have adopted outperformance of index measures has increased.

TSR performance scales for PSP adopted among the FTSE 100



Source: PwC Executive reward survey 2011

TSR performance scales for PSP adopted among the FTSE 250



Source: PwC Executive reward survey 2011

Of those companies that have relative TSR performance targets in place, a significant proportion of FTSE 100 companies (40%) now require upper quintile and upper decile TSR performance levels for maximum vesting.

The number of FTSE 250 companies that use absolute TSR measures is proportionally the same as those used among the FTSE 100.

Share ownership

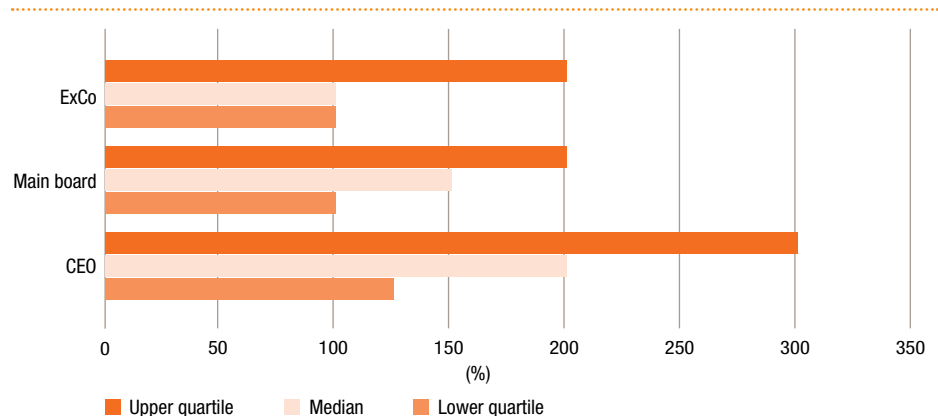
Companies have been encouraged for a number of years to adopt a formal shareholding requirement which is intended to serve as a tool to ensure that interest of shareholders and key employees are aligned.

This requirement is designed to encourage employees to behave like owners of the business so that they place greater emphasis on the long-term performance of a company and consider the implications of risk in order to minimise the potential loss of value to their shareholding.

The majority of listed companies now have share ownership guidelines in place with around 90% of CEOs formally adhering to this requirement. A small number of companies have not formally adopted guidelines for specific individuals who are considered significant shareholders or in cases where directors hold a significant multiple of base salary in the form of equity.

Three-quarters of main board directors have share ownership guidelines in place. These guidelines are applicable for around half of executive committee directors.

Levels of share ownership for main roles

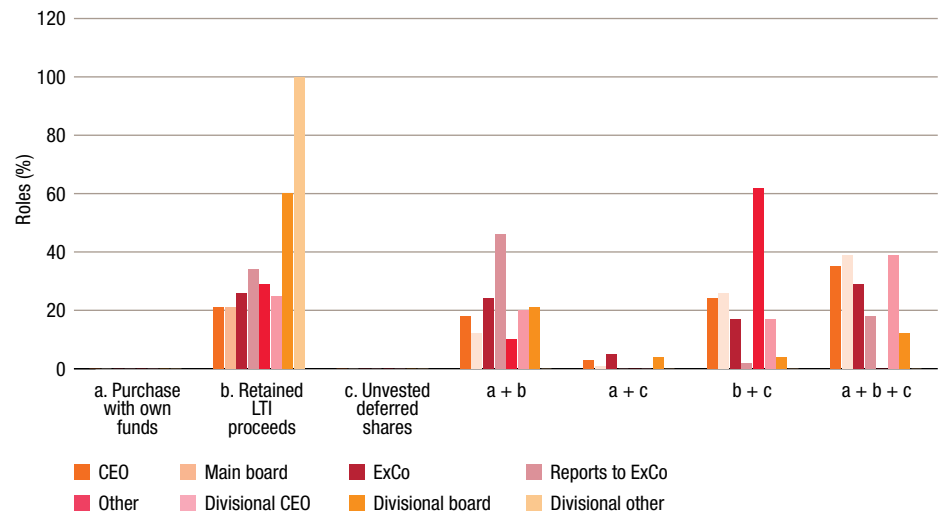


Source: PwC Executive reward survey 2011

In some cases share ownership levels can reach between 400%-500% of base salary.



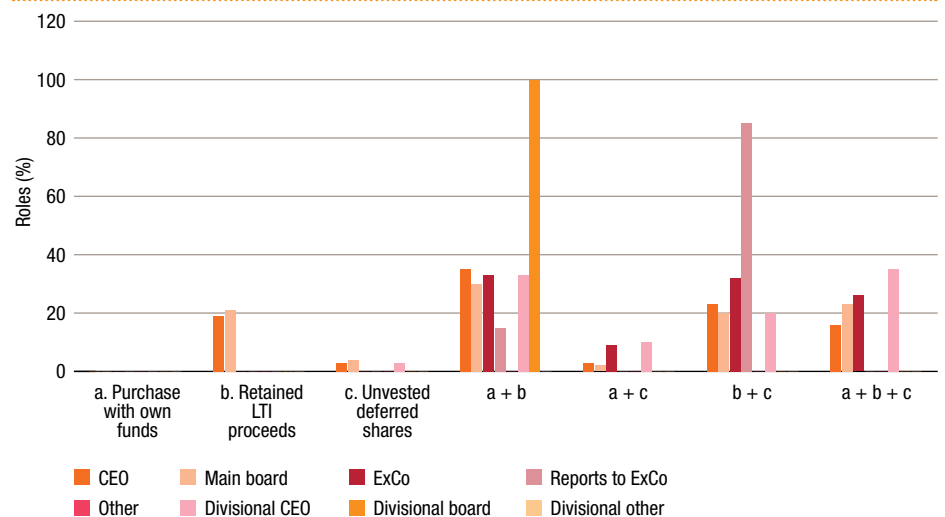
Methods of building share ownership in the FTSE 100



Source: PwC Executive reward survey 2011

The main method of building individual shareholdings is by purchasing shares with own funds in combination with retaining long-term incentive awards.

Methods of building share ownership in the FTSE 250



Source: PwC Executive reward survey 2011

Risk and reward

In recent years, risk has become a major focal point in relation to both company strategy and remuneration. The application of risk when considering remuneration has taken centre stage as a result of the global financial crisis.

It's considered that risk was a major factor in influencing the behaviour of employees required to pursue aggressive performance targets where a large portion of their remuneration was based on successfully achieving of those targets.

As a result, all organisations are now being encouraged to consider whether the behaviours driven by their remuneration packages reflect the company's risk appetite and the ambitions and risks inherent within a business.

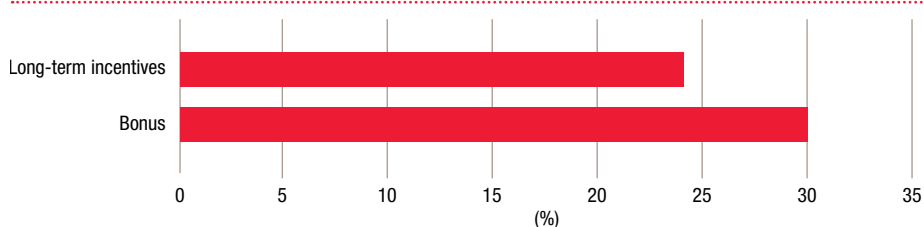
Reference to risk is now included in shareholder best practice guidance where companies are advised to consider their remuneration arrangements and outcomes in the context of risk within a business.

Companies are now starting to consider how they approach risk, reviewing the interaction between risk and reward within their business. A more structured approach in taking risk into consideration has been adopted in the form of a clawback mechanism. This mechanism ensures that a portion of total pay is aligned to long-term performance and can be reclaimed by the a company in the event of any short-term misstatement of performance or individual misconduct.

Currently around one-third of companies are considering introducing bonus clawback in 2012, with a further 20% having already implemented it in 2011.

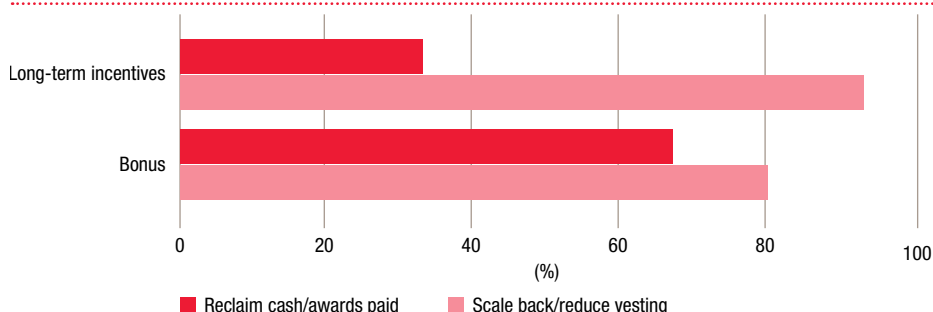
A quarter of companies plan to introduce clawback of long-term incentives.

Type of incentive plans in which clawback is being introduced



Source: PwC Executive pulse survey 2011

Methods of clawback being considered



Source: PwC Executive pulse survey 2011

Pensions

The economic downturn of the past few years has placed a considerable burden on employee pension schemes. Many companies who operate a defined benefit scheme for their employees faced a considerable deficit as market performance declined and pension arrangements were subject to additional liabilities.

As a result, several companies have sought to close their defined benefit schemes to new participants and

replace these altogether with other arrangements.

In addition, there have been a number of legislative changes which have affected the tax position of higher earners who participate in pension schemes. The impact of the reduction in the annual allowance from £255,000 to £50,000 and the proposed reduction in the life time allowance, which takes effect in April 2012, has led companies to review the method in which their pensions are delivered.

Defined benefit pension provision

	Eligibility (% roles)		Actual award (% salary)		Policy award (% salary)		Maximum award (% salary)	
	FTSE 100	FTSE 250	FTSE 100	FTSE 250	FTSE100	FTSE250	FTSE100	FTSE250
CEO	31	20	40	55	85	83	60	75
Main board	31	23	45	60	78	67	67	77
ExCo	32	21	60	60	76	75	–	–
Reports to ExCo	33	16	60	60	79	80	–	–
Other	35	19	60	60	77	96	–	–
Divisional CEO	40	18	60	60	84	75	71	56
Divisional board	52	14	60	60	82	86	–	–
Divisional other	52	15	60	60	71	100	–	–

Source: PwC Executive reward survey 2011

Approximately one-third of top-tier management in the FTSE 100 and one-fifth in the FTSE 250 have a defined benefit pension. The proportion of employees in FTSE 250 companies who have a defined benefit arrangement is consistent with that of the top-tier of management, but the proportion significantly increases to around half of divisional employees at FTSE 100 companies.

In FTSE 100 companies, the accrual rate at board level continues to be more generous than below board roles. The accrual rates are consistent across all roles in FTSE 250 companies.

Nearly 40% of main board FTSE 100 roles have a defined contribution pension.

40%

Participation in defined contribution pension schemes is higher in FTSE 250 companies. The median employer contribution ranges from 15-20% of salary across all levels.

Defined contribution pension provision (median)

(% plans)	Defined contribution (% roles)		Maximum employer contribution (% salary)		Minimum employee contribution (% salary)	
	FTSE 100	FTSE 250	FTSE 100	FTSE 250	FTSE 100	FTSE 250
CEO	34	47	25	15	3	5
Main board	38	57	15	15	3	5
ExCo	50	64	15	14	3	4
Reports to ExCo	57	79	15	10	3	3
Other	59	73	15	10	3	2
Divisional CEO	41	64	13	13	3	4
Divisional board	33	71	15	10	3	2
Divisional other	52	62	11	10	5	2

Source: PwC Executive reward survey 2011

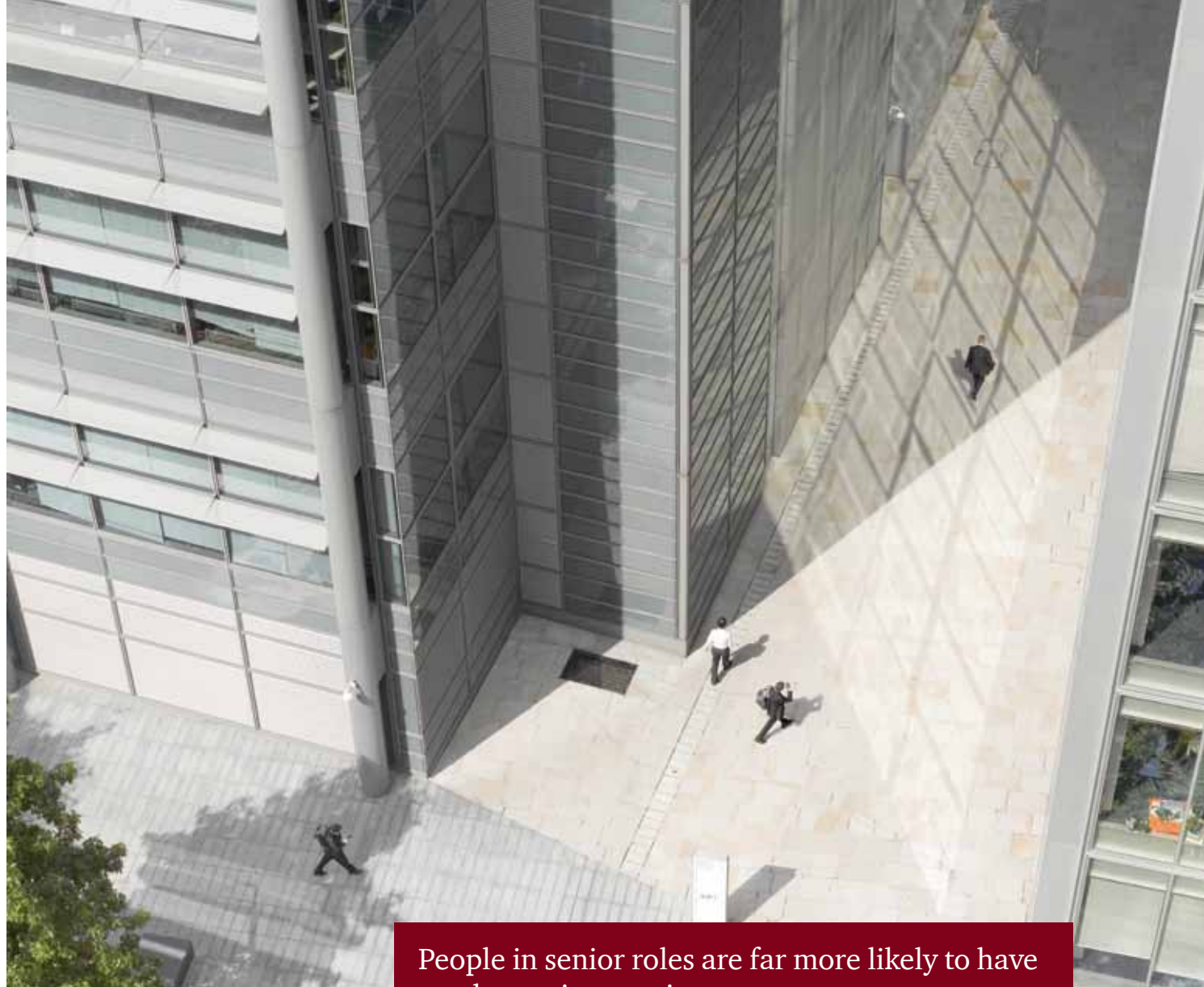
Salary supplements are less prevalent further down the organisation. Typical levels are between 20% – 30% of salary.

Salary supplements (median)

(% plans)	Salary supplement (% roles)		Maximum employer contribution main benefit (% salary)		Maximum employer contribution additional benefit (% salary)	
	FTSE 100	FTSE 250	FTSE 100	FTSE 250	FTSE 100	FTSE 250
CEO	40	41	30	25	21	20
Main board	36	28	25	20	20	20
ExCo	19	20	25	15	20	20
Reports to ExCo	15	2	15	12	20	20
Other	11	3	30	15	13	–
Divisional CEO	22	14	25	15	20	20
Divisional board	19	11	15	10	14	10
Divisional other	7	4	15	–	25	26

Main benefit refers to where salary supplement is used as the sole pension provision. Additional benefit refers to where salary supplement is used in conjunction with another form of pension provision.

Source: PwC Executive reward survey 2011



People in senior roles are far more likely to have an alternative pension arrangement.

Use of alternative arrangements to provide pension benefits above the earnings cap or lifetime allowance

	None (% roles)		Unapproved arrangement (% roles)		Salary supplement (% roles)		Other undisclosed pension arrangement (% roles)	
	FTSE 100	FTSE 250	FTSE 100	FTSE 250	FTSE100	FTSE250	FTSE100	FTSE250
CEO	0	26	55	0	41	71	6	3
Main board	14	-	43	2	43	65	0	11
ExCo	32	48	30	9	39	43	0	0
Reports to ExCo	20	91	15	0	63	9	2	0
Other	0	100	11	0	89	0	0	0
Divisional CEO	26	66	26	3	46	28	2	3
Divisional board	16	87	19	0	65	13	0	0
Divisional other	56	0	11	0	33	100	0	0

Source: PwC Executive reward survey 2011

Total remuneration

Total remuneration at FTSE 100 and FTSE 250 companies remains broadly comparable with 2010 levels. Although some companies have modestly adjusted salary levels with around 3% increases and annual bonus payments have returned to normal levels as companies return to profit, this trend is not reflected in actual total remuneration for the past year.

The main reason for total remuneration levels remaining flat is attributed to low payouts in the long-term variable pay component of the remuneration package. This is because companies have faced a challenging period over the course of the last three-year performance cycle in which LTI performance is usually measured.

Despite remuneration levels remaining consistent with previous years, total remuneration continues to be headline news. Maximum potential remuneration levels are usually reported with little acknowledgment of actual 'take home' pay.

With such sensitivity around total remuneration remaining, it's expected that levels will not show significant increases and may even become depressed further as there are stronger signs of market conditions worsening. The pressure from shareholders and Government on companies to show restraint adds to the challenge in ensuring that remuneration packages remain competitive.

Total remuneration values on an expected value basis (median) FTSE 100

	Base salary (£'000)	Total cash (£'000)	Total direct remuneration (£'000)	Total remuneration (£'000)
CEO	816	1,577	2,727	3,134
Main board	439	799	1,341	1,474

Source: PwC Executive reward survey 2011

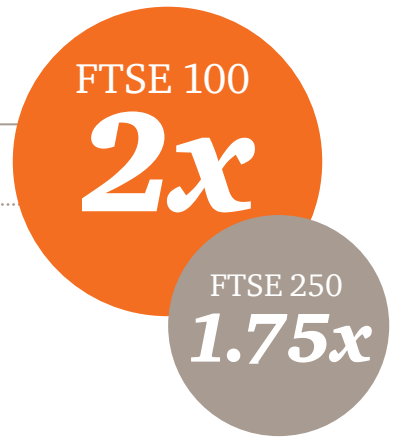
Total remuneration values on an expected value basis (median) FTSE 250

	Base salary (£'000)	Total cash (£'000)	Total direct remuneration (£'000)	Total remuneration (£'000)
CEO	461	824	1,243	1,380
Main board	289	488	721	799

Source: PwC Executive reward survey 2011

Base salary	=	Annual base salary
Total cash	=	Base salary + annual bonus
Total direct remuneration	=	Total cash + value of long-term incentives
Total remuneration	=	Total direct remuneration + value of pension

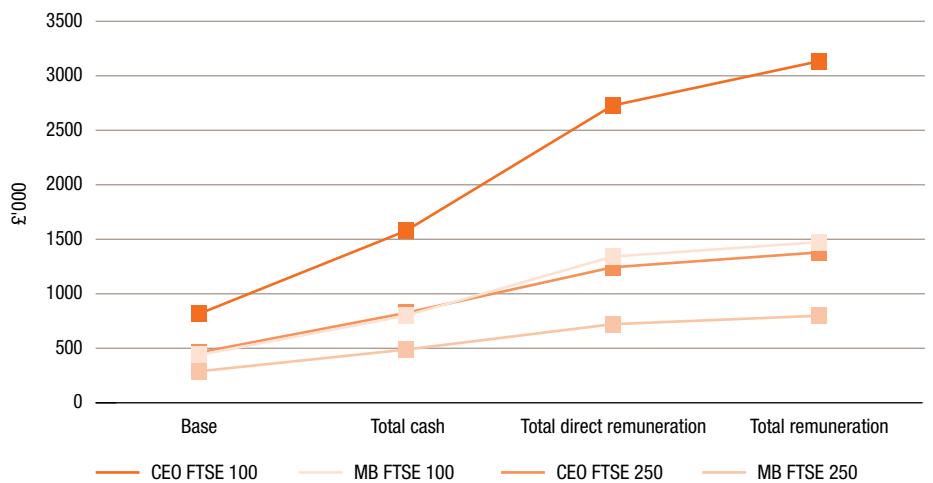
The remuneration package for FTSE 100 CEOs is approximately two times that of a FTSE 100 main board director.



FTSE 250 CEOs are paid approximately 1.75 times higher than FTSE 250 main board directors, a smaller differential than the FTSE 100.

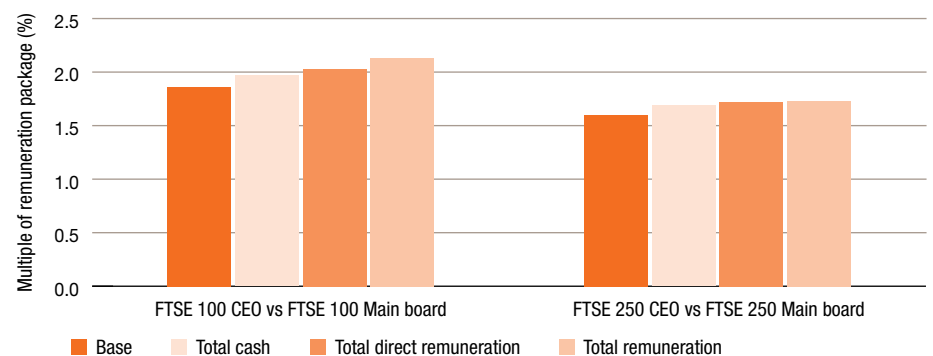
Remuneration levels for FTSE 250 CEOs are broadly similar to those of FTSE 100 main board directors.

Comparison of total remuneration levels for FTSE 100 and FTSE 250 board directors



Source: PwC Executive reward survey 2011

Pay differential between CEO and main board Directors for FTSE 100 and FTSE 250 companies



Source: PwC Executive reward survey 2011

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