Motivating top management through well-structured pay

Key trends and issues

Mitul Shah / 11 April 2013
Introduction

About Deloitte

The Deloitte Executive Compensation Consulting practice covers all aspects of senior executive compensation and incentive design.

Our team includes deep expertise in areas ranging from reward strategy consulting, incentive plan design, valuation, accounting, legal and tax experts. Our practice has been consciously built around an integrated model, in which areas commonly separated in competitor practices are closely integrated.

Mitul Shah, Partner, London

- Thirteen years’ experience
- Significant experience advising Russian companies on all aspects of executive pay and incentive design
Today’s agenda

Why is executive compensation important?

International market trends

Designing effective incentive plans

Corporate governance
Why is executive compensation important?
Why is executive compensation important?
Compensation in the news

“Fixing the fat cats – Switzerland votes to curb executive pay”
The Economist
March 2013

“Leaders must act fast to save the City – cap on bankers bonuses”
The Financial Times
March 2013

“Spain set to give shareholders say on pay”
The Financial Times
March 2013

“Germany weighs pay curbs, legislation would give shareholders more say over executive compensation”
The Wall Street Journal
March 2013

“In case you were worried, top Wall Street CEOs got nice raises last year”
The Huffington Post
May 2012

“Putin may cap golden parachutes after $100 million payout”
Bloomberg
March 2013
Why is executive compensation important?
Driving the right behaviours

**Recruitment, motivation and retention**

The right compensation arrangements can be used to recruit, motivate and retain high calibre executives.

**Alignment with strategy and owner interests**

Successful compensation arrangements are ones that align executives’ interests with the long-term strategy of the business and the interests of shareholders.

**Good corporate governance**

Well structured compensation arrangements send a positive message to shareholders and regulators about a company’s attitude to risk and governance.

**Avoid over or under spending**

Compensation arrangements which are appropriately designed can ensure a company provides compensation that is market competitive without over spending.
Why is executive compensation important?

The compensation framework

- The most effective Remuneration / Compensation Committees will design remuneration arrangements which support the execution of the company’s business strategy and align the interests of executives with those of shareholders.

- The compensation arrangements should properly reflect, among other factors, the stage in the business lifecycle of the Company, type and location of operations and the market within which the company competes for talent.

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Business strategy and organisational culture

Remuneration philosophy

Objectives and desired behaviours to be achieved which are aligned to the business strategy

Basic principles underpinning a Company’s approach to compensation which reflects the Company’s culture and value

Remuneration strategy

Remuneration policy

Provides a structure for how each element of compensation interacts

Base salary

Annual bonus

Long-term incentives

Benefits
### Why is executive compensation important?

Overview of typical package in Europe and US

<table>
<thead>
<tr>
<th></th>
<th>Western Europe</th>
<th>U.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Base Salary</strong></td>
<td>• Typically accounts for 30-40% of total package for top executives at target.</td>
<td>• Typically accounts for 15-25% of total package for top executives at target.</td>
</tr>
<tr>
<td><strong>Annual Bonus</strong></td>
<td>• Both financial (mainly earnings/profit) and non-financial performance measures.</td>
<td>• Revenue growth and earnings-based measures are the most common financial measures.</td>
</tr>
<tr>
<td></td>
<td>• Increased use of deferral of part of bonus into shares.</td>
<td>• Deferral less common than in Europe.</td>
</tr>
<tr>
<td><strong>Long-Term Incentives</strong></td>
<td>• Typically accounts for approximately one-third of total package for top executives at target.</td>
<td>• Often accounts for at least two-thirds of total package value for top executives at target.</td>
</tr>
<tr>
<td></td>
<td>• KPIs tend to be linked to share value (e.g. total shareholder return and/or share price) and earnings (e.g. EPS). Use of strategic measures increasing.</td>
<td>• Continued use of a portfolio approach for LTI grants (e.g. granting two or more different kinds of equity vehicles).</td>
</tr>
<tr>
<td></td>
<td>• Use of clawback continues to increase in popularity.</td>
<td>• Historically LTI grants had not been subject to performance conditions but there has recently been a marked increase in the use of performance shares.</td>
</tr>
</tbody>
</table>
Why is executive compensation important?
Overview of typical package - key objectives of each element

The illustration below shows how the various components of compensation can be used to achieve specific objectives and drive desired behaviours. However, in order to do this, the amount and balance of the overall package and the performance measures need to be appropriate.

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Elements of executive compensation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Can act as a lock-in / retention device</td>
<td>Base salary</td>
</tr>
<tr>
<td>Can incentivise performance against specified objectives</td>
<td>Bonus</td>
</tr>
<tr>
<td>Can incentivise value creation</td>
<td>Long-term incentives</td>
</tr>
<tr>
<td>Can align the interests of participants with those of shareholders</td>
<td></td>
</tr>
</tbody>
</table>
Why is executive compensation important?
The purpose of incentive plans

- Share in company success
- Support change initiative
- Recruit & retain key employees
- Align interests of executives with shareholders
- Foster performance culture
- Incentivise shareholder value creation
- Promote long-term decision making
International market trends
Market highlights
Worldwide trends

US – key themes
• Increased shareholder activism through say-on-pay proposals
• Alignment of pay and performance
• Concerns with benchmarking practice
• Questions about severance and change of control arrangements
• Remuneration Committee effectiveness and communication

Rest of Europe– key themes
• Measures aimed at taxing high earners introduced in France, Greece, Portugal & Spain
• Switzerland: vote on executive pay
• Italy: government intervention on disclosure for listed-companies, and pay of executives of state-owned enterprises
• France: increased shareholder activism
• Across Europe: cap on variable pay for bankers

UK – key themes
• New disclosure requirements for the Directors’ Remuneration Report
• Introduction of binding vote on executive compensation policy
• Shareholder activism – the “shareholder spring”
• Focus on stronger link between pay and performance
• Longer-term horizons
• Frozen salaries / small pay increases
Market highlights
Worldwide trends

India & the Middle East– key themes
• **India**: Above inflation salary increases. Annual bonus amount remains relatively modest. Companies are concerned about retention and high expectations around salary increases.
• **Middle East**: Reliance on fixed pay. Annual bonus awards are typically lower than western markets. Long-term incentive plans are becoming more popular, but are only in place in 25% of companies in Saudi Arabia. Grants are also typically lower. Companies are concerned about retention and motivation of individuals given the high levels of variable pay elsewhere.

Asia – key themes
• **Singapore**: Salary increases remain broadly flat. Although most Singaporean companies have an LTIP in place, few companies make annual LTIP grants.
• **China**: Above inflation salary increases. Weighting of annual bonus as a % of total pay is gradually increasing, although bonus amount remains relatively modest. Companies are focused on attraction and retention of talent with increased focus on performance related reward.

Australia – key themes
• Introduction of clawback provisions
• “Two strikes rule”
• Link between pay and performance
• Concerns about the amount of executive pay
• New guidance on remuneration governance in development
Bonus plans
Bonus plans

Purpose

- Incentivise performance against specific KPIs
- Performance measured against short-term goals
- Is a ‘one-off’ reward for this period’s performance
- Typically a cash payment which is payable on a monthly, quarterly and annual basis
- Developing international best practice - element of bonus deferral into shares

Illustration of bonus

<table>
<thead>
<tr>
<th>Performance period</th>
<th>Payment in Cash</th>
<th>Deferred shares (up to three years)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Potential requirement for an element of deferral which is typically delivered in shares</td>
<td></td>
</tr>
</tbody>
</table>
## Bonus plans

### Key considerations when implementing a bonus plan

<table>
<thead>
<tr>
<th>How?</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Bonus pool, sum of targets, multiplier approach</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Who?</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Which individuals?</td>
<td></td>
</tr>
<tr>
<td>• How far down the organisation?</td>
<td></td>
</tr>
<tr>
<td>• Which business units / geographies?</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>What for?</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Financial and non-financial KPIs?</td>
<td></td>
</tr>
<tr>
<td>• Corporate vs individual KPIs? Weightings?</td>
<td></td>
</tr>
<tr>
<td>• Setting targets / measuring performance</td>
<td></td>
</tr>
<tr>
<td>• How does the plan fit in with the overall compensation philosophy?</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>How much?</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Competitive pay vs good value</td>
<td></td>
</tr>
<tr>
<td>• Funding model</td>
<td></td>
</tr>
<tr>
<td>• Distribution model</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>When?</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Usually 1 year performance period</td>
<td></td>
</tr>
<tr>
<td>• Deferral?</td>
<td></td>
</tr>
</tbody>
</table>
Bonus plans
Market practice in Russia

- Typically between 3 – 6 KPIs
  Revenue and profit are the most common

- Only few companies incorporate an element of discretion in bonus assessment

- Participation in bonus plan usually throughout the organisation

- Frequency of payment varies – monthly or quarterly for non-management employees, for more senior quarterly or annually

- Amount may equate to up to 200% of salary, and could be substantially higher in larger companies or in Financial Services

- Deferral only used by a handful of companies with a premium listing in London, driven by UK best practice
Bonus plans
Market practice – Rest of world

UK
- Typically combination of a financial measure (profit) and non-financial KPIs
- Typical amount is between 1-2x salary
- Most companies operate deferral
- Clawback provisions increasingly common
- Shareholders increasingly demanding justification for bonus payments

US
- Typically use a combination of financial and non-financial KPIs
- Revenue and earnings are the most popular financial KPIs
- Deferral is less common than in the UK but still exists in some companies

Australia
- Balanced scorecard of KPIs
- Deferral of part of bonus into shares becoming increasingly common
- Amount typically between 1-2x salary
Long-term incentive plans
Long-term incentive plans

Purpose

Key objectives

- Incentivise and reward performance
- Link rewards to the returns received by owners
- Attract and retain key executives
- May encourage executives to become shareholders
# Long-term incentive plans

## Key considerations when implementing a LTIP

<table>
<thead>
<tr>
<th>How?</th>
<th>Cash, shares, options</th>
</tr>
</thead>
<tbody>
<tr>
<td>Who?</td>
<td>Which individuals?</td>
</tr>
<tr>
<td></td>
<td>How far down the organisation?</td>
</tr>
<tr>
<td></td>
<td>Which business units / geographies?</td>
</tr>
<tr>
<td>What for?</td>
<td>Incentivise, reward, lock-in, create shareholder value?</td>
</tr>
<tr>
<td></td>
<td>What is the link to the business strategy?</td>
</tr>
<tr>
<td></td>
<td>How does the plan fit in with the overall pay philosophy?</td>
</tr>
<tr>
<td>How much?</td>
<td>Competitive pay vs good value</td>
</tr>
<tr>
<td></td>
<td>How much can the Company afford?</td>
</tr>
<tr>
<td>When?</td>
<td>Timescales?</td>
</tr>
<tr>
<td></td>
<td>One-off or annual grants?</td>
</tr>
</tbody>
</table>
## Long-term incentive plans

### Different award types

<table>
<thead>
<tr>
<th><strong>Performance Shares</strong></th>
<th><strong>Market-value options</strong></th>
<th><strong>Cash</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Participants have a right to receive a certain number of shares subject to achievement of KPIs</td>
<td>• Participants only share in value if the share price increases. Therefore incentive to grow the share price</td>
<td>• Participants receive a cash sum subject to achievement of KPIs or a share in the growth in value of the company</td>
</tr>
<tr>
<td>• Allow participants to receive value from the award even if the share price falls</td>
<td>• A larger number of options need to be granted to deliver the same value as performance shares</td>
<td>• Not linked to share price</td>
</tr>
<tr>
<td>• Alignment to shareholder experience</td>
<td>• Already an inherent share price growth condition</td>
<td>• No dilutive effect</td>
</tr>
<tr>
<td></td>
<td>• Volatility of share price can significantly decrease value despite underlying good performance</td>
<td>• Simple</td>
</tr>
</tbody>
</table>
Long-term incentive plans
Performance measure selection

Includes measures focused on the ‘top line’, such as sales.

- Revenue based measures

Includes measures based on achievement of strategic, commercial and/or personal objectives, e.g. linked to achievement of strategic milestones.

- Strategic measures

Includes measures focused on profits/earnings, such as EBIT, EBITDA, EPS, etc. The most commonly used senior executive measure in short term incentives

- Profit based

Includes measures focused on efficiency of capital use, e.g. economic profit and variants of return on capital employed.

- Capital focused measures

Includes measures such as targeted share price and TSR.

- Share price based measures

Measures of cashflow.

- Cashflow based measures

Measures of operational strategy.

- Operational Strategy

Includes measures based on achievement of strategic, commercial and/or personal objectives, e.g. linked to achievement of strategic milestones.

- WACC

Includes measures focused on profits/earnings, such as EBIT, EBITDA, EPS, etc. The most commonly used senior executive measure in short term incentives

- EP ROCE ROIC

Includes measures focused on efficiency of capital use, e.g. economic profit and variants of return on capital employed.

- Share price

Includes measures such as targeted share price and TSR.

- TSR

Includes measures such as targeted share price and TSR.
## Long-term incentive plans
### Performance measure selection (cont.)

<table>
<thead>
<tr>
<th>Capital focused measures</th>
<th>Strategic measures</th>
<th>Share price based measures</th>
<th>Revenue based measures</th>
<th>Profit based measures</th>
<th>Cashflow based measures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Advantages</strong></td>
<td><strong>Disadvantages</strong></td>
<td><strong>Advantages</strong></td>
<td><strong>Disadvantages</strong></td>
<td><strong>Advantages</strong></td>
<td><strong>Disadvantages</strong></td>
</tr>
<tr>
<td>Provides a strong link to shareholder value creation</td>
<td>May be most suitable for capital driven companies, as opposed to those driven by revenues/earnings</td>
<td>By linking to business plan and strategy, strategic milestone measures can be (internally) transparent and so open to objections that they lack (external) transparency. This may also devalue the measure if decisions on whether they have been met are considered arbitrary by prospective participants</td>
<td>Strongest link to value creation and highly transparent</td>
<td>Relevant to business and recognised for sector as an important measure of performance (e.g. like-for-like sales and sales per square foot)</td>
<td>More directly under management control. Relatively well understood by investors and common as short term incentive measure and in longer term plans through EPS</td>
</tr>
<tr>
<td>Favoured by analysts</td>
<td>Inherently subjective and so open to objections that they lack (external) transparency. This may also devalue the measure if decisions on whether they have been met are considered arbitrary by prospective participants</td>
<td>Share price performance already inherent in share-based plans. Share price reflects market perception of expected performance so may not be a good indicator of actual performance</td>
<td>Measurement questions and potentially too remote from ultimate delivery of value</td>
<td>Can be perceived as too narrow (e.g. relative to capital focused measures). Differences between accounting treatments can make inter-company comparisons problematic. Adjustments can make some analysts distrustful of the measure</td>
<td>Adjustments can make some analysts distrustful of the measure</td>
</tr>
<tr>
<td><strong>Ultimately, decisions on performance measures will depend on individual business economics and business maturity, how capital focussed is the business and how good is the line of sight to the different measures</strong></td>
<td></td>
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</table>

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Long-term incentive plans
An illustrative timeline for designing and implementing a long-term incentive plan

**Design phase**

1. **Understand company strategy and objectives**
   - Meet key stakeholders (e.g. Board directors, major shareholders, CEO, CFO, HR Director) to develop a better understanding of the Company’s strategy, views on remuneration and objectives of the plan
   - Identify key metrics used to measure Company’s performance
   - Identify current incentives used at the Company and undertake research on market practice

2. **Work with the company to develop potential solutions**
   - Develop alternative designs for initial discussion including:
     - Form of award
     - Performance measures
     - Participation
     - Time horizons
   - Consider advantages and disadvantages of various approaches and technical considerations for each design
   - Consider high level overview of company valuation principles / costs (if appropriate)

3. **Finalise proposals**
   - Refine and develop preferred approach
   - Consider more detailed design considerations
   - Develop detailed term sheet summarising key terms of the plan
   - Finalise and agree company valuation (if relevant)
   - Consider funding, accounting, legal and tax treatment
   - Agree award levels

**Implementation phase**

- Draft legal documentation
- Draft employee communications and award documentation (e.g. description of plan, legal and tax treatment etc)

**Illustrative timeframe**

- Design phase: 1 – 2 weeks
- Implementation phase: 2 – 3 weeks
- Depends on scope and complexity of the plan

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Long-term incentive plans
Market practice in Russia

- Around half of Russian companies which we have analysed as part of our research operate a long-term incentive plan.
- Typically operate phantom stock options.
- Share price growth is the most common KPI.
- Performance shares vest after three years, while option plans typically in tranches.
- Amount ranges from 1-3x salary, and up to 5-6x salary for some large companies.
- Many plans include industry-specific KPIs e.g. production targets for companies in the Resources sector.
## Long-term incentive plans

### Examples of Russian market practice

<table>
<thead>
<tr>
<th>Company</th>
<th>Plan Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RusPetro</strong></td>
<td><strong>Performance share plan</strong>&lt;br&gt;  - Annual award</td>
</tr>
<tr>
<td>(Oil &amp; Gas)</td>
<td>- Award levels - 150% for CEO, 125% for other Executive Directors</td>
</tr>
<tr>
<td></td>
<td>- 50% Relative TSR against a comparator group of Oil &amp; Energy companies</td>
</tr>
<tr>
<td></td>
<td>- 50% for improvement in the efficiency of capital expenditure required to increase production</td>
</tr>
<tr>
<td></td>
<td>- 3 year performance period</td>
</tr>
<tr>
<td></td>
<td>- Clawback applicable</td>
</tr>
</tbody>
</table>

| **Uralkali** | **Performance share plan**<br>  - Long-term incentive                                                |
| (Chemicals)  |  - Total shareholder return relative to a comparator group                                          |
|             |  - Adjusted to the volatility of the Russian stock market versus the US market                     |
|             |  - The absolute risk adjusted stock performance will also influence the amount of remuneration    |
|             |  - No disclosure in the annual report on how these adjustments would be performed                  |

<table>
<thead>
<tr>
<th><strong>Raven Russia</strong></th>
<th><strong>Combined bonus and long-term incentive scheme</strong>&lt;br&gt;  - Award levels – max 300% p.a. of salary for Executive Directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Property)</td>
<td>- Annual awards based on performance during the year. No post-vesting performance conditions</td>
</tr>
<tr>
<td></td>
<td>- Principally subject to operating cash income targets. If these are not met then assessment against TSR or NAV is performed</td>
</tr>
<tr>
<td></td>
<td>- All awards must be retained until April 2016</td>
</tr>
</tbody>
</table>
**Long-term incentive plans**

**Examples of Russian market practice**

<table>
<thead>
<tr>
<th>Polymetal (Mining)</th>
<th>X5 Retail Group (Food Retail)</th>
<th>Russian resources company</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bonus pool linked to share price performance</strong></td>
<td><strong>Restricted Stock Unit Plan</strong></td>
<td><strong>Long-term cash and option plan</strong></td>
</tr>
<tr>
<td>• One-off award prior to IPO</td>
<td>• Award level – 200% of base salary</td>
<td>• Percentage of issued share capital for option element, cash as a % of salary</td>
</tr>
<tr>
<td>• Bonus pool linked to share price increase above threshold</td>
<td>• Up to 1/3 for CEO, and ¼ for other participants subject only to continuous employment</td>
<td>• Annual grants for cash</td>
</tr>
<tr>
<td>• 2.5 year vesting period</td>
<td>• Performance criteria include performance against a group of competitors in achieving sustained growth and international presence, and EBITDA</td>
<td>• Options granted every three years</td>
</tr>
<tr>
<td>• Participants may extend this by one year, at their sole discretion</td>
<td>• 2 year vesting period</td>
<td>• Strategic targets including production and cash flow</td>
</tr>
<tr>
<td>• Company has signalled its intention to adopt a more conventional LTIP going forward</td>
<td>• Additional holding period of 2 years</td>
<td>• 3 year performance period</td>
</tr>
</tbody>
</table>
Long-term incentive plans
Market practice – Rest of world

UK
- Most companies only operate a single share plan which is typically a performance share plan
- FTSE 100 median award is 200% of salary
- Performance share plans typically use two performance measures (e.g. EPS and TSR) though this is changing
- Some companies are beginning to think of unifying bonus and long-term incentive arrangements into a single plan
- Shareholding guidelines

Western Europe
- Many companies operate two long-term incentive plans, usually a combination of performance shares and options
- LTIs most prevalent in Switzerland, Germany and the UK
- LTIs typically account for one-third of total compensation
- Profit and TSR or other share price metrics are the most popular performance measures
- Most performance shares plans have a four-year vesting period (other than in the UK – see above)

US
- Most companies have two or more plans (performance share plan / restricted shares & options)
- Companies increasingly using performance share plans rather than option plans or restricted shares
- Typically only one or two performance measures are used, usually including a financial measure and/or TSR
- LTIs often account for at least two-thirds of total compensation

Australia
- Performance share plans most common
- Typically KPIs include a combination of EPS / TSR
- Performance periods are normally 3 years
- Amount is between 1-2x salary
Corporate governance
Corporate governance
Why it is important to get it right?

- Compensation often seen as proxy for overall governance
- Belief that better governance increases returns
- Give investors confidence through transparency
- Alignment of shareholders’ and executive interests
- External pressure
- Improve company valuation

The role of the Compensation Committee

The key questions for a Compensation Committee:

- **How much** should we be paying?
- **What** are we paying for? And **how**?
- Does the compensation policy support our **business strategy**?
- Will the approach be acceptable to **shareholders**?
Corporate governance
Market practice in Russia

We analysed the annual reports of Russian companies with listing on the London Stock Exchange:

- **88%** have a Compensation and Nomination Committee
- **27%** have a separate remuneration report

- **75%** of Compensation Committee Chairmen are independent
- **90%** of Audit Committee Chairmen are independent
- **33%** of directors on the board are classified as independent
- **2/3rds** of directors on the typical Audit or Compensation Committee are independent
Following the financial crisis, a significant amount of regulation in relation to compensation has been released in Europe covering the financial services sector. The European-wide regulation will affect the European subsidiaries of Russian Financial Services companies and the subsidiaries of European companies in all countries (including Russia). The main regulations include:

<table>
<thead>
<tr>
<th>Regulation</th>
<th>Timeline</th>
<th>Scope</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Europe</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| CRD III                     | Already effective                       | • Banks, Building Societies and limited licence firms  
• CRD IV will be implemented on 1 January 2014. It has been confirmed that this will include a 1:1 cap on fixed/variable pay ratio (2:1 with shareholder approval). | |
| AIFMD                       | July 2013 (subject to transitional provisions) | • Alternative investment fund managers (AIFMs).  
• ESMA issued final guidelines on remuneration rules in February 2013.  
• National regulators will now need to transpose into local regulation. In the UK, the FSA is due to publish a further consultation paper and then issue final rules in June 2013. | |
| **Russia**                  |                                         |                                                                                                                                         |
| Central Bank Regulation N 2894-U “On Bank Economic Position Assessment” | 1 July 2013                                           | • Banks  
• Amount of incentive payouts should be based on the risk profile and profitability metrics of the bank  
• For executive management and risk-takers, variable compensation should be no less than 50% of total compensation  
• At least 40% of variable pay must be deferred for three years or more, and include clawback | |

Consistent themes:
- Risk alignment of pay
- Payment in instruments
- Increased deferral
- Clawback
Questions for you
Making incentives work for you

Do the plans you have in place **effectively motivate** senior management?

Are they **competitive** in the right market?

How important are your incentive plans to **your employees**?

Does the package reflect your **strategy**?

Could incentives be **simplified** so that they are **easier to understand** and **administer**?

Are the **corporate governance structures** in place appropriate?
Questions?
Appendices
Appendix 1: Bonus plans
Market practice – Rest of the world (BRIC & Middle East)

Brazil
• Amount is around 1-2x salary
• Mainly linked to company results
• Deferred cash bonuses common
• Total pay is often significantly higher compared to top management in other developing countries

India
• Bonus remains modest as focus remains on large salary increases (c.10% a year)
• Amount is typically around 50% of salary

China and Singapore
• Amount is between 1-1.5x salary
• Earnings growth and shareholder returns are two common KPIs, as well as ROIC, ROE and cash flow.

Middle East
• Amount is around 0.5 – 1x salary
• Mainly linked to individual or strategic performance, though most plans include Revenue or Net Income as a KPI
• Deferral and clawback provisions are popular in the financial services sector, but are not really seen outside of this sector
Appendix 2 Long-term incentive plans
Market practice – Rest of world (BRIC & Middle East)

China and Singapore
- Many different LTIP types including performance share plans, restricted share plans and share option plans
- Only 1/3 of Singaporean companies with LTIPs made LTIP awards in 2012, despite 78% of companies having one in place
- Amount is typically c. 30-50% of salary

Middle East
- Significant legal and cultural barriers to LTIPs
- 30% of companies operate an LTIP
- Plans vest over a three year period, most phased
- Award level of 1-2x salary
- Net income growth, return on equity, and dividend yield are popular KPIs

Brazil
- Difficult to operate long-term incentive plans in Brazil due to disputes about tax treatment
- Most companies operate profit sharing plans, or stock options plans or share plans
- Phased vesting common

India
- Very few companies operate LTIPs
- As companies become more concerned about the unsustainable levels of salary increases and the resultant retention problems, LTIPs may become more popular