Guide to Directors' Remuneration 2016

A wide-ranging overview of executive and non-executive directors' remuneration trends in FTSE 350 companies

November 2016

kpmg.com/uk/remreport16

Summary findings

The table below summarises median market practice in FTSE 100 companies for chief executives, finance directors and other executive directors.

FTSE 100	Chief Executive	Finance Director	Other Executive Director
Salary increase	3%	3%	3%
Basic salary (£'000s)	832	539	410
Annual bonus			
Maximum bonus (percentage of salary)	185%	150%	150%
Total bonus (percentage of maximum)	80%	80%	76%
Total bonus (percentage of salary)	134%	128%	108%
Most common performance measure	Combination of profit, personal objectives and non-financial measures		
Deferred annual bonus			
Maximum permitted deferral (percentage of annual bonus)	50%	50%	50%
Deferral period	3 years	3 years	3 years
Performance share plans			
Maximum award (percentage of salary)[1]	300%	250%	250%
Actual award (percentage of salary)[1]	279%	246%	217%
Actual gains (percentage of salary)	151%	122%	155%
Most common performance measure	TSR* relative to comparator group and EPS** growth		
Total earnings[2] (£'000s)	**3,673**	**2,206**	**1,883**

1 Face value of award.
2 Includes benefits, total bonus and cash value of PSP awards vested and share options exercised in the year.
* Total shareholder return
** Earnings per share

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The table below summarises median market practice in FTSE 250 companies for chief executives, finance directors and other executive directors.

FTSE 250	Chief Executive	Finance Director	Other Executive Director
Salary increase	3%	3%	3%
Basic salary (£'000s)	525	345	332
Annual bonus			
Maximum bonus (percentage of salary)	130%	120%	125%
Total bonus (percentage of maximum)	70%	67%	71%
Total bonus (percentage of salary)	88%	86%	86%
Most common performance measure	Combination of profit, personal objectives and non-financial measures		
Deferred annual bonus			
Maximum permitted deferral (percentage of annual bonus)	50%	50%	50%
Deferral period	3 years	3 years	3 years
Performance share plans			
Maximum award (percentage of salary)[1]	200%	185%	180%
Actual award (percentage of salary)[1]	178%	155%	146%
Actual gains (percentage of salary)	41%	42%	87%
Most common performance measure	TSR* relative to comparator group and EPS** growth		
Total earnings[2] (£'000s)	**1,557**	**966**	**981**

1 Face value of award.
2 Includes benefits, total bonus and cash value of PSP awards vested and share options exercised in the year.
* Total shareholder return
** Earnings per share

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Highlights

Basic salary

Around 1 in 5 executive directors in the FTSE 350 received **no salary increase**, which is the lowest level of pay freezes in the last four years.

Regulatory

There have **not been any changes** to remuneration rules affecting UK main market listed companies in 2016, but there has been a great amount of discussion and debate surrounding boardroom pay.

On the other hand, there have been a **plethora of changes** to the regulatory requirements around remuneration in the financial services sector.

Annual bonus and deferred annual bonus

1 in 10 executive directors in the FTSE 350 received no annual bonus, a slightly lower fraction than last year.

More than **a third** of FTSE 350 companies paid their executive directors bonuses of **over 80%** of the maximum opportunity.

Pensions

The value of pensions for executive directors has largely escaped shareholders' focus. Pension is now equivalent to **a quarter** of basic salary for executive directors of FTSE 100 companies, and equivalent to a fifth for executive directors of FTSE 250 companies.

Long term incentives

Median awards for executive directors of FTSE 100 companies were **250% of basic salary** whilst awards were **165% of basic salary** for executive directors of FTSE 250 companies. The use of some form of TSR measure, either as a single measure or in conjunction with another approach, continues to be the most popular measure across the FTSE 350.

Shareholders

Average vote in favour of remuneration reports was **92%**. 2016 was hardly the shareholder spring II headlined; nevertheless, the Government and investor bodies have increased their focus on executive pay.

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Introduction

This guide analyses the latest trends in FTSE 350 directors' pay. It covers basic salary, incentives and pensions. We also look at the wider factors that impact executive pay and how these have changed over the year.

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Use of this guide

This publication is designed to be a wide-ranging guide to you as a director or policy maker to assist in remuneration planning at your company. Where possible we have broken down the data obtained from the FTSE 350 into groupings by market capitalisation and turnover, to increase the relevance to you.

We recommend that this guide is used in conjunction with other information and in consultation with your advisers to ensure the data is interpreted correctly and is relevant to your company.

While data provides a useful guide, it is important to note its historical nature, together with the personal circumstances that are attached to each role and benchmark.

This guide is designed to provide you with a wide-ranging picture of trends in market practice in remuneration for executive and non-executive directors in FTSE 350 companies.

The guide includes a detailed look at the market in terms of pay, together with information on the wider executive remuneration landscape, including analysis of shareholder activism and trends in new long term incentive plans.

This guide is structured to show information by position; namely chief executive, finance director, other executive directors and non-executive directors, to enable all the remuneration components of each position to be considered and discussed together.

Where we show total earnings figures we have based this on current disclosures, following the methodology for the single figure table for remuneration in Directors' Remuneration Reports. Additional information on pensions and plan design for short and long term incentives is shown separately.

This guide is based on data gathered from external data providers (see methodology appendix for more information) and covers companies with financial year ends up to and including 31 March 2016. The analysis of long term incentive plans also includes information from shareholder communications on new plans, and amendments to existing plans put forward for approval at AGMs until 31 August 2016.

How KPMG can help

KPMG is one of the UK's leading advisers on employee incentives and executive remuneration. We are a member of the Remuneration Consultants Group (RCG) and signatory to its Code of Conduct. We have a multi-disciplinary team, able to advise on market practice, corporate governance, incentive plan design, tax, regulatory and accounting aspects of UK and global incentive plans.

We work regularly with clients ranging from Main Market and AIM listed companies to private equity-backed and larger unlisted companies, as well as multinational groups headquartered both in and out of the UK. We have significant experience in advising on all of the following matters:

- Reward strategy and approach.
- Mix of pay and remuneration benchmarking.
- Remuneration committee governance.
- Remuneration regulatory compliance.
- Design and implementation of incentive plans.
- Corporate transactions.
- Accounting, valuations and modelling.
- Ongoing operation of incentive plans.
- Job evaluation and grading.
- Directors' Remuneration Reports.

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The remuneration landscape

Over the last decade, remuneration of UK directors has remained firmly in the spotlight. Although this year was no different, the four key drivers of this – namely companies, shareholders, Government and public opinion have arguably shaped the narrative in different ways to previous years. Despite some very public exceptions, the majority of companies continued to receive high levels of support from their shareholders, with the average vote in favour of the directors' remuneration report over 90%. 2016 was hardly the *shareholder spring II* headlined, nevertheless, the Government and investor bodies seem to have increased their focus on executive pay.

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> Despite the media discussion of a *second shareholder spring*, the majority of FTSE 350 companies received a high level of support from their shareholders.

Directors' remuneration reporting

For the majority of companies, 2016 was the last year of operating and reporting on the implementation of a remuneration policy approved in 2014. It was therefore unsurprising that less than a fifth of the companies took a revised remuneration policy to a shareholder vote this year. Looking closely at this small sample, and shareholding voting patterns in the directors' remuneration reports across the FTSE 350, the key issues are clear.

Almost three years on from the introduction of the new disclosure and voting on directors' pay, transparency and interaction between companies and shareholders remains of critical importance. Remuneration committees that have demonstrated on-going engagement with shareholders, particularly at the early stages of the remuneration strategy setting process, rather than simply at year-end, proved to be the ones which avoided surprises at their AGM.

However, engagement and dialogue is not a complete remedy. Shareholders still consider some issues as highly contentious, such as the use of upwards discretion, significant increases in remuneration quantum with less than robust rationale, and lack of transparency in disclosing the performance thresholds for assessing short and long performance. The exercise of discretion in particular is something of a vexed issue – shareholders appear to be interpreting this as downwards discretion is acceptable and upwards is not.

An overview of the key themes from the reporting season is shown below.

Remuneration policy

- 37% of companies included their whole remuneration policy in the remuneration report, although they are not specifically required to do so.
- The link to strategy in the remuneration policy is an area where shareholders would like to see an improvement. This year 82% of companies referenced or provided extracts of their strategic report, and only 22% provided a high level explanation of the link between their strategy and remuneration policy.
- The majority of companies (96%) have clawback and/or malus provisions following the update to the Corporate Governance Code. For those that do not yet have such provisions, many have stated that they will be reviewing their malus/clawback arrangements either next year, or at the time of the next binding vote on policy (12%).
- Only 12% of the companies who received a significant vote against their policy last year, submitted a new policy to vote this year.

Annual remuneration report

- There was generally improved disclosure on annual bonus performance measures and their weightings this year, with 61% of companies disclosing this information in comparison to 49% last year.
- The same improvement was not seen in disclosure of specific annual bonus targets. More companies this year did not disclose this information, relying on the commercial sensitivity exemption (60% this year compared to 46% in 2015).
- The vast majority of these companies do not provide an indication of when annual bonus targets will cease to be commercially sensitive, and therefore when they will be disclosed.
- However, close to half of FTSE 350 companies continue to use commercial sensitivity as rationale for excluding retrospective annual bonus targets from their annual report on remuneration.

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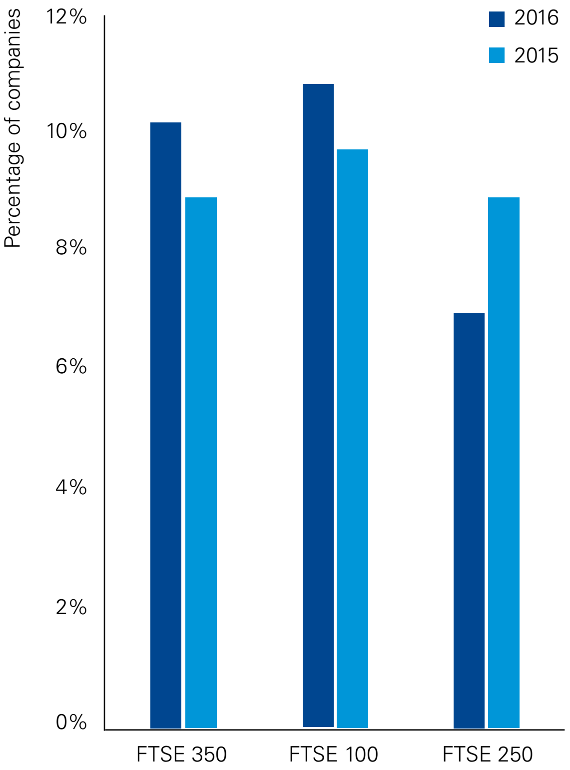
The shareholder perspective

The 2016 AGM season saw only three companies in the FTSE 350 receive majority votes against their annual remuneration report and one company received a majority vote against the policy report – a far less dramatic picture than some of the more alarmist media coverage suggested.

Percentage of companies with a significant vote (>20%) against their annual remuneration report compared with prior year

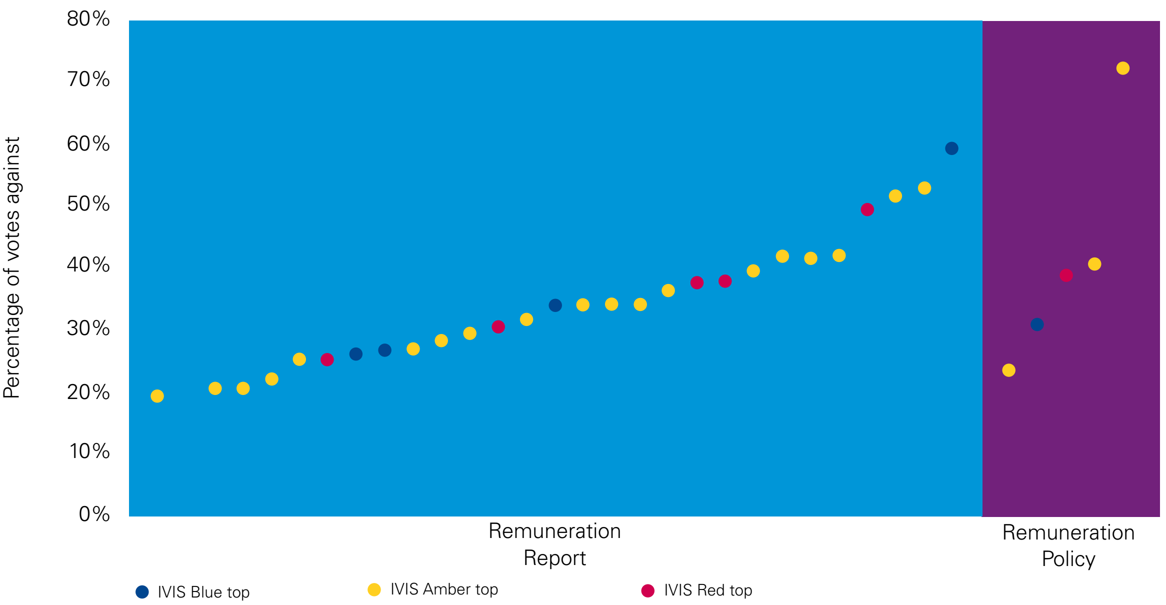


Similarly to last year, the average vote in favour of the directors' remuneration report was over 90% amongst FTSE350 companies. However, the overall percentage of companies with a significant vote against (defined as more than 20%) has increased, suggesting there has been some increased shareholder dissent.

In spite of the increased level of disclosure, voting agencies still flag lack of it as one of the key reasons for shareholder dissent. This need for further improvement applies largely to companies that are still not providing retrospective disclosure of specific targets in relation to annual bonus plans, relying on commercial sensitivity exemptions. Whilst shareholders largely accept that prospective disclosure of targets is difficult, they do expect companies to disclose targets after the end of the relevant year.

Once again this year, where a company has received a significant vote against, this is due to a combination of factors. Common features remain the lack of disclosure of annual bonus targets, significant basic salary increases and any special pay arrangements made upon recruitment. It is interesting to note that there seems to be limited correlation between institutional voting recommendations and shareholder vote. The chart below shows the companies with significant votes against annual remuneration reports together with their IVIS institutional voting recommendations.

FTSE 350 companies with significant votes against annual remuneration reports and institutional voting recommendations



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Remuneration regulation landscape

There have not been any changes to remuneration rules affecting UK main market listed companies in 2016, but there has been a great amount of discussion and debate, for example The Executive Remuneration Working Group report. We have also seen a number of institutional shareholders issuing new guidelines on pay, and all of this needs to be considered by Remuneration Committees as they plan for 2017.

The financial services sector, on the other hand, continues to experience a plethora of changes to the regulatory requirements around remuneration in the various sub sectors.

Main market listed companies' remuneration landscape

Executive Remuneration Working Group (ERWG)

July 2016

The ERWG issued its final report in July with ten recommendations that it believes will go a long way towards rebuilding trust and fixing aspects of executive remuneration that are perceived to be broken.

The ten recommendations are as follows:

1. There should be more flexibility afforded to remuneration committees to choose a remuneration structure which is most appropriate for the company's strategy and business needs.
2. Non-executive directors should serve on the remuneration committee for at least a year before taking over the chairmanship of the committee. The Financial Reporting Council should consider reflecting this best practice in the UK Corporate Governance Code.
3. Boards should ensure the company chairman and whole board are appropriately engaged in the remuneration setting process. This will ensure that the decisions of the remuneration committee are agreed by the board as a whole.
4. Remuneration committees need to exercise independent judgement and not be over reliant on their remuneration consultants particularly during engagement with shareholders. To ensure independent advice is maintained, the remuneration committee should regularly put their remuneration advice out to tender.
5. Shareholder engagement should focus on the strategic rationale for remuneration structures and involve both investment and governance perspectives. Shareholders should be clear with companies on their views and level of support for the proposals.
6. Companies should focus their engagement on the material issues for consultation. The consultation process should be aimed at understanding investors' views. Undertaking a process of consultation should not lead to the expectation of investor support.
7. Remuneration committees should disclose the process for setting bonus targets and retrospectively disclose the performance range.
8. The use of discretion should be clearly disclosed to investors with the remuneration committee articulating the impact the discretion has had on remuneration outcomes. Shareholders will expect committees to take a balanced view on the use of discretion.
9. The board should explain why the chosen maximum remuneration level as required under the remuneration policy is appropriate for the company using both external and internal (such as a ratio between the pay of the CEO and median employee) relativities.
10. Remuneration committees and consultants should guard against the potential inflationary impact of market data on their remuneration decisions.

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GC100 and Investor Group guidance

August 2016

The GC100 and Investor Group published a revised version of its Directors' Remuneration Reporting Guidance to further assist companies and investors in the interpretation of the directors' remuneration reporting regulations.

The revisions made to the guidance include:

- Expansion of guidance on the use of commercial sensitivity in relation to the disclosure of performance targets, providing that commercial sensitivity should generally be based on company specific circumstances.
- Clarification of the expectations on the exercise of discretion by the remuneration committee to ensure that remuneration outcomes balance both managements' performance and shareholder experience.
- Expectation that a meaningful comparator group should be chosen when reporting on the percentage change in the CEO's remuneration and not, for instance, a narrow group of senior managers.
- Expectation that the maximum salary, including each component of remuneration, should be disclosed and explained for each executive director in the future policy table.
- Expectation that where no payment to past directors or for loss of office has been made companies should consider including a statement in the remuneration report confirming this.

Financial services regulation

EU Referendum/Brexit

June 2016

On 23 June, the UK voted to leave the EU, a result which will undoubtedly have profound implications for the financial services industry.

As things stand the UK remains in the EU and prior to any exit ("Brexit") it is expected that there will be wide reaching negotiations which could see the UK position itself in a number of different ways in relation to the EU. There are many potential iterations of what a post Brexit regulatory environment might look like. There is no certainty that EU regulations will no longer apply once Brexit is finalised and even if they stop being directly applicable there is no certainty that the UK regulatory bodies will drop any of the existing regulatory requirements. Of all the remuneration regulations it is only the bonus cap under CRD IV that the UK regulatory bodies have not shown full support for. On that basis, UK firms are expected to continue to operate on the basis that the European remuneration regulations will continue to apply.

Alternative Investment Fund Managers Directive (AIFMD)

March 2016

The European Securities and Markets Authority updated its Guidelines on 'sound remuneration policies' under AIFMD. The limited changes to the July 2013 established remuneration framework related to the application of remuneration policies to subsidiaries of a credit institution.

These guidelines will apply from 1 January 2017, subject to any transitional provisions.

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Markets in Financial Instruments Directive II ('MiFID II')

The European Parliament and the Council of the European Union issued legislation postponing the formal implementation date of the MiFID II regime by a year, with a new implementation date of 3 January 2018. The implementation date was postponed because the European Securities and Markets Authority (ESMA) did not believe that competent authorities or market participants would have had the necessary systems in place by January 2017.

Investment firms will be required to establish, implement and maintain procedures and measures to ensure the manufacturing of financial instruments complies with the requirements on proper management of conflicts of interest, including remuneration.

The FCA is expected to issue a policy statement on the implementation of MiFID II in 2017.

Capital Requirements Directive IV (CRD IV)

February 2016

The PRA and FCA notified the EBA of their intention to comply with all the provisions included in the EBA guidelines on sound remuneration policies under CRD IV, except for the bonus cap requirement. The UK regulators stated that smaller firms should be allowed to dis-apply the 'Maximum Ratio Rule'.

July 2016

The European Commission published its report assessing the CRD IV remuneration rules. Whilst the recent nature of some of the rules and the widespread application of proportionality have hampered the review exercise the EC still finds that the remuneration rules are generally effective in discouraging excessive risk taking and improving alignment of remuneration and performance.

The report does not make any recommendations on possible changes or clarifications to the remuneration rules but it does conclude that the cost of implementing the rules may sometimes outweigh the benefits. It highlights the requirements for deferral and payments in instruments in small and non-complex organisations or for low levels of variable remuneration as being examples of such cases. The EC will conduct an impact assessment to examine options around the application of proportionality.

September 2016

The PRA published the final rules on buy-outs of variable remuneration following a consultation from January 2016, which addressed the practice of buying-out variable remuneration from previous employment in the context of hiring new staff. The new rules are intended to ensure that for new hires who were 'material risk takers' in previous employment, any bought-out awards remained subject to clawback and malus in the new employment. In practice this would involve the old employer notifying the new employer of misconduct or failure of risk management and the corresponding amount by which variable remuneration should be reduced by the new employer.

January 2017

Application of the EBA Guidelines on sound remuneration policies is required from 1 January 2017.

The key changes include:

- **Widening of the maximum Ratio Rule**. Fixed to variable remuneration ratio of 1:1 (or 1:2 with shareholder approval) will apply to all firms that fall within the scope of the Capital Requirements Directive (CRD).
- **Shareholder approval**. Firms wanting to increase the fixed to variable remuneration ratio from 1:1 to 1:2 will need to seek approval from external shareholders as well as internal shareholders.
- **Long-term incentives and carried interest payments**. For the purpose of calculating the amounts subject to the bonus cap, the valuation of LTI and carried interest vehicles will take place at the time of award rather than vest, which is consistent with current practice.
- **Dividend and interest payments**. Dividend (including any equivalents) and interest payments will not be permitted to accrue as part of share awards or LTIs.

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Undertakings in Collective Investments in Transferable Securities V ('UCITS V')

February 2016
The FCA published a policy statement on the implementation of the UCITS V directive, which set out the changes affecting managers and depositaries of UCITS and Alternative Investment Funds (AIFs). Minor clarifications to the wording of the proposed rules were suggested, the only change worth noting related to non-cash instruments. The wording of the statement clarified that a 'substantial portion and at least 50% of any variable remuneration component had to consist of non-cash instruments.' The directive provision clarified that the minimum of 50% did not apply if the management of UCITS was less than 50% of the total portfolio managed by the management company.

Managers of UCITS should be compliant with all of the remuneration requirements from the beginning of the first full performance period starting on or after 18 March 2016.

March 2016
ESMA published its final guidelines on what it deems to be 'sound remuneration policies' under the UCITS directive. This provides clarity on the requirements and the expectations on management companies when they are seeking to create and apply a remuneration policy for key staff.

The guidelines will apply from 1 January 2017, subject to transitional provisions.

The FCA has already implemented the remuneration requirements introduced under the UCITS directive in a new Code, the SYSC 19E UCITS Remuneration Code. The ESMA Guidelines provide a more detailed outlook on what management companies are expected to do in certain circumstances and seek to provide clarity on how the directive should be implemented correctly across the EU member states. In contrast, the FCA Code provides a set of prescriptive rules which should be adhered to in order to ensure compliance.

The FCA provisions came into force on 18 March 2016, therefore relevant firms must now be compliant with the remuneration requirements under UCITS V.

Solvency II Directive

January 2016
The Solvency II regime came into effect on 1 January 2016 across EU member states and third-party equivalent countries for the majority of insurance and reinsurance companies. The directive contains specific remuneration requirements for material risk takers and control functions that insurers must have in place for performance periods that start on or after 1 January 2016. These include the requirement to balance fixed and variable remuneration, maintaining a multi-year bonus deferral and the possibility of paying no variable remuneration component.

August 2016
The PRA published its Policy Statement and Supervisory Statement on the remuneration requirements under Solvency II. The remuneration requirements are broadly aligned with those already applicable under regulations like CRD IV and AIFMD. The remuneration rules include the requirement to defer at least 40% of variable remuneration over at least 3 years and subject the variable remuneration to malus provisions.

Full compliance is required from PRA category 1 and 2 firms. PRA category 3 to 5 firms are not allowed to disapply the remuneration requirements but can take a proportionate approach to applying the requirements.

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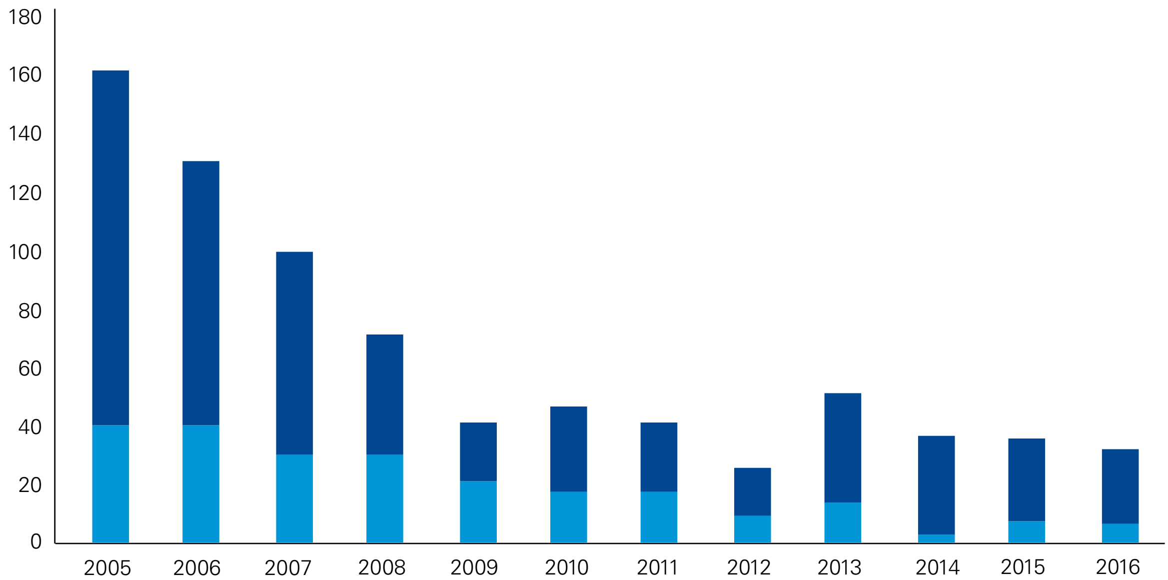
New and amended long term incentive plans

The number of long term incentive plans taken to shareholders this year has continued to decrease slightly compared with previous years as the following graph shows.

New and amended long term incentive plans by FTSE 350 companies



Of those companies introducing new plans, few took an approach that differs significantly from that which has been followed in recent years. As in 2015, the use of performance share plans (PSPs) continues to be the most prevalent type of plan put to shareholders for approval. Only three FTSE 250 companies have introduced a market value option plan for their executive directors – it is worth noting that no FTSE 100 company introduced such a plan for executive directors in 2016. The remainder of new plans are co-investment or umbrella plans.

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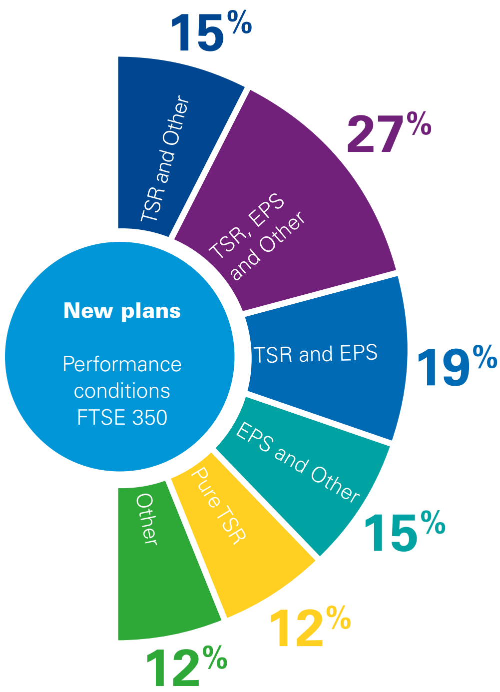
The following table shows new plans introduced by FTSE 350 companies in 2016.

New plans introduced by FTSE 350 companies in 2016 (2015 plans in parentheses)	
Performance share plans	22 (22)
Umbrella plans	2 (2)
Other long-term incentive plans	2 (5)
Total plans introduced by FTSE 350 companies	26 (29)

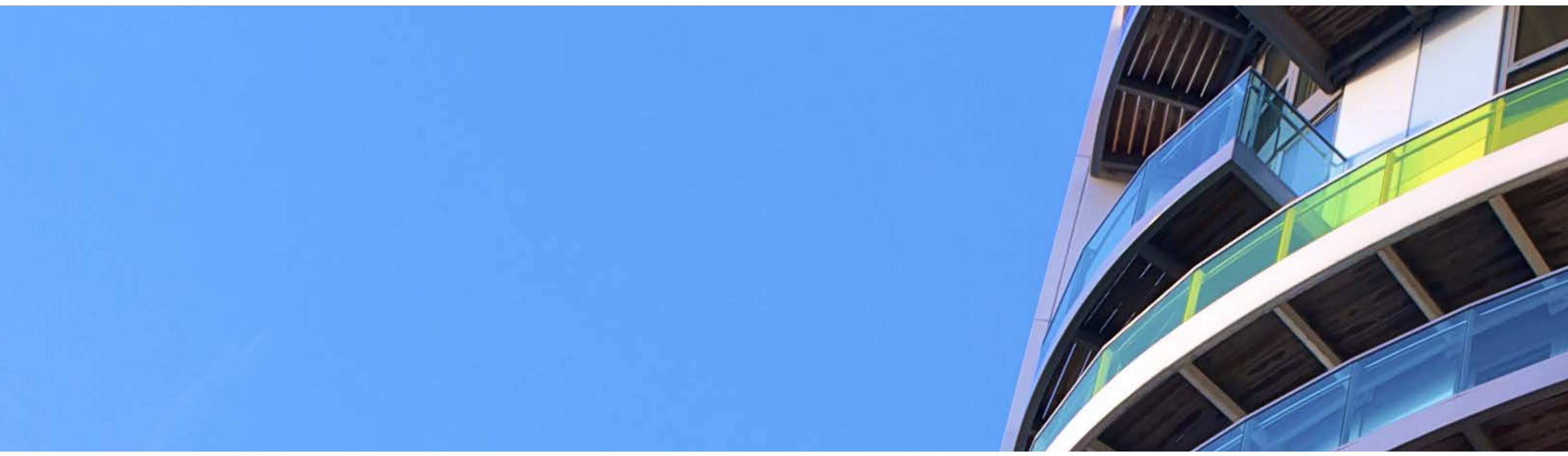
Over the last few years we have consistently seen an increase in the use of 'other' measures that are more business/ company specific, and in some cases these include non-financial metrics such as customer service and employee engagement. Despite the slow pace of change in LTIP design in recent years, the increasing use of non-traditional metrics in new or amended plans is a sign that companies want to improve the link to their business strategy. The 2017 AGM season, where the majority of new plans will be put forward to shareholders for approval alongside their remuneration policies, will be the 'real' test of shareholders' appetite for anything that verges off the 'beaten path'.

The following chart shows that the majority of new plans introduced incorporate TSR and/ or EPS as a performance condition, either on their own or in conjunction with another measure. Again this follows common practice in recent years.

FTSE 350 use of performance conditions in new plans



While guidance has stated that companies should have the flexibility to select a plan which is appropriate for the business, experience continues to show that shareholders dislike anything which is different to the norm.



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Looking ahead

Although there have been no regulatory changes in 2016 the debate on executive pay has continued unabated. We have seen more interested parties entering the debate, with statements from the CBI, the Prime Minister and individual MPs, as well as the continued institutional shareholder focus. The interesting point to note is that while there are many voices agreeing that something is wrong, the view as to what needs to be done differently is more fragmented and there is no clear solution or change being put forward that will "solve" the problem.

Within this environment remuneration committees will be considering what approach to take in 2017, and for many this will mean taking the remuneration policy to shareholders for approval.

So what do we expect to see in the coming months?

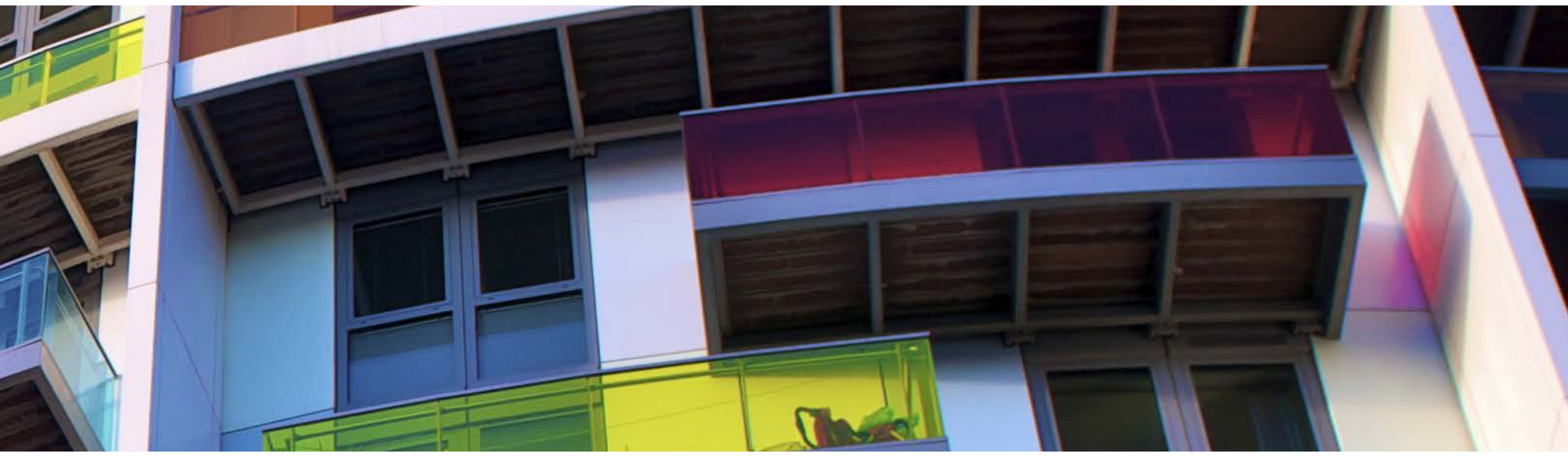
The first point to reiterate is that the majority of companies have high levels of support from their shareholders for their policy and approach to pay. Therefore while it is sensible to review and confirm or make changes if required from a business standpoint, there is no need for wholesale change. It is true that shareholder attitudes on some issues have changed over the last three years, so prior approval should not lead a company to take for granted the same support if policy is unchanged, so care does need to be taken. For example if the LTIP remains fit for purpose from a business perspective but has a three-year performance period and no additional holding period, consider whether the link to the long term and alignment with shareholders is sufficient or whether this is an area where change should be considered. Are shareholding guidelines significant and have executives already met or exceeded them?

A second step for companies to take is to ensure an understanding of the shareholder base. Different institutions will have different views on particular issues, and some will be more activist than others. Each year we see examples of companies simply not understanding or being aware of the views of their own big shareholders. To avoid a surprise at the AGM it is imperative to understand this context and to take steps to address any issues. Equally, start the dialogue early; do not leave it until just before the AGM notice is due to be published and expect shareholders to be supportive.

Companies should continue to focus on their own business context and factors important for future growth and success, rather than focusing on the external pay market. While the competitive pay market is one input to the debate it does not provide answers. In order to clearly demonstrate to shareholders the business rationale for a particular approach the debate has to start from the business strategy, not from what other companies are doing or paying.

While the debate around further changes such as disclosure of the CEO pay ratio, employee representation on boards and limits to variable pay continues it may be wise for companies to consider their response should particular questions be raised by shareholders. This can provide useful context for decisions which are made.

Taking these actions should help to ensure that remuneration committees agree an approach which is based on full information and evidence, which in turn should help the process of explaining this in a transparent fashion which clearly demonstrates the business rationale. It is unlikely the media interest will die down, but what is needed is a reasoned and evidence-led debate between each company and its shareholders to demonstrate that no further regulatory intervention is required. This is a point on which both parties seem to agree, so it is up to them to demonstrate the current governance environment works.



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Market data overview

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Over the last few years, fixed pay for executive directors in the FTSE 350 has maintained a similar level of increase across all employee groups.

Total earnings

The following table summarises the median basic salary, total cash and total earnings in the year for all chief executive, finance and other executive directors.

Analysis includes all companies in the sample, regardless of any changes in the executive team during the financial year (2015 data in parentheses).

	Basic salary (£000s)	**Total cash** (£000s)	**Total earnings** (£000s)
FTSE 100			
Chief Executive	832 (838)	2,265 (2,292)	3,673 (3,921)
Finance Director	539 (498)	1,504 (1,268)	2,206 (2,123)
Other Executive Director	410 (440)	1,077 (1,107)	1,883 (2,048)
FTSE 250			
FTSE 250 Chief Executive	525 (504)	1,105 (1,030)	1,557 (1,382)
Finance Director	345 (330)	710 (678)	966 (838)
Other Executive Director	332 (325)	671 (671)	981 (1,012)

The variable components of pay, both short and long term, continue to form a significant proportion of total earnings and although they have only increased by 5%, they continue to pay out at high levels.

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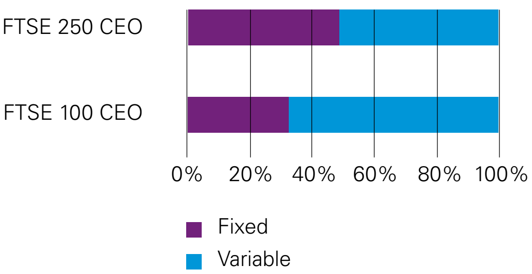
> Annual bonus payments remain at a high level and have increased by 2% in the FTSE 350 this year.

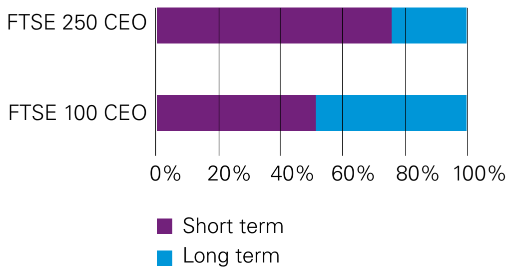
Remuneration mix

The following charts show, the mix of total earnings for FTSE 350 CEOs, comparing the fixed: variable and short: long term elements of remuneration.

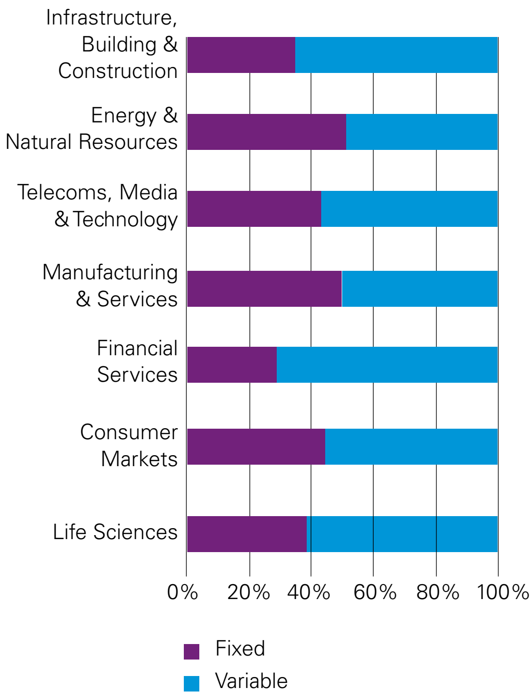
The chart below shows the remuneration mix between fixed and variable. This is based on median total earnings received during the year.



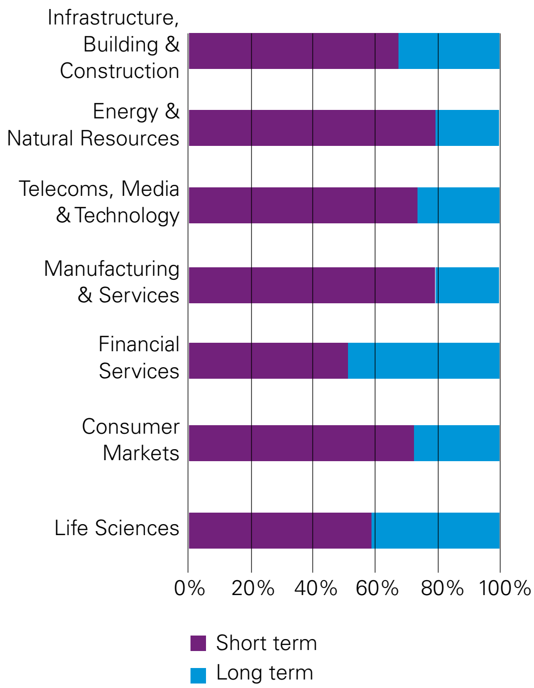
The following chart shows the median short term: long term remuneration mix for CEOs, also based on total earnings received in the year.



The chart below shows the median remuneration mix between fixed and variable for CEOs split by sector.



The chart below shows the median short term: long term remuneration mix for CEOs split by sector.



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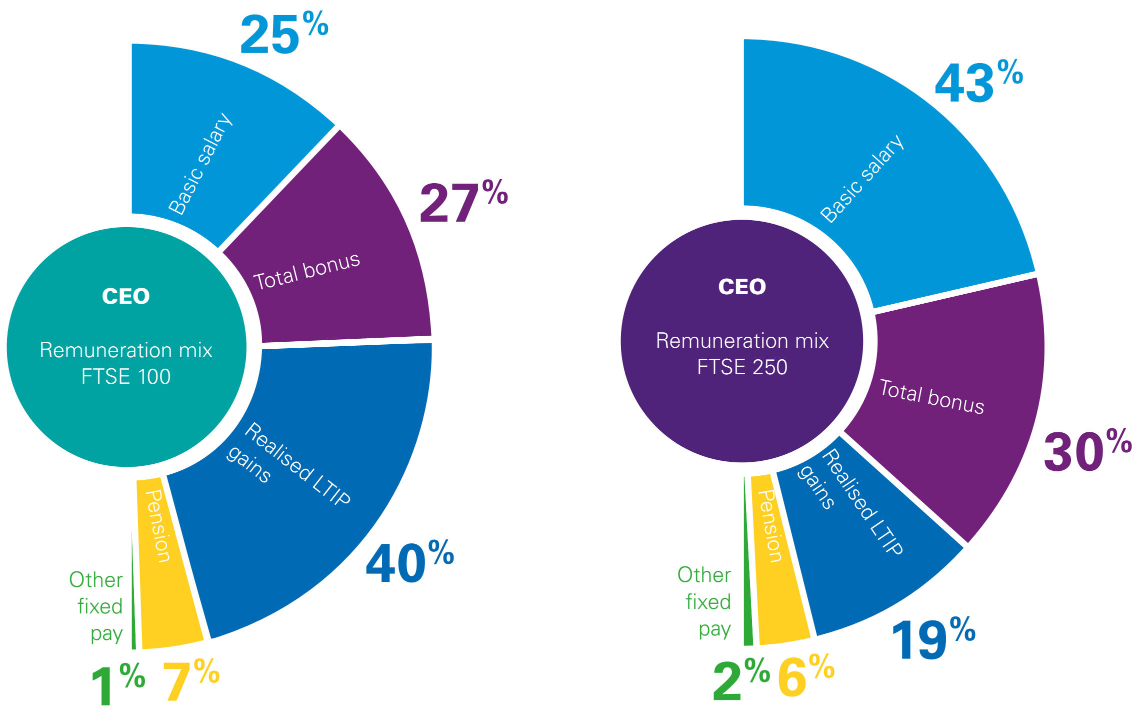
In accordance with the single figure table disclosure methodology followed in Directors' Remuneration Reports, deferred awards paid out in future financial years are included as short term incentives as they are no longer subject to performance.

The charts below show the median remuneration mix for CEOs split by pay elements, as reported in the single figure table.



> Payouts under long term incentive awards form a significant proportion of total earnings and have broadly increased by less than 10% in the FTSE 350 from last year.

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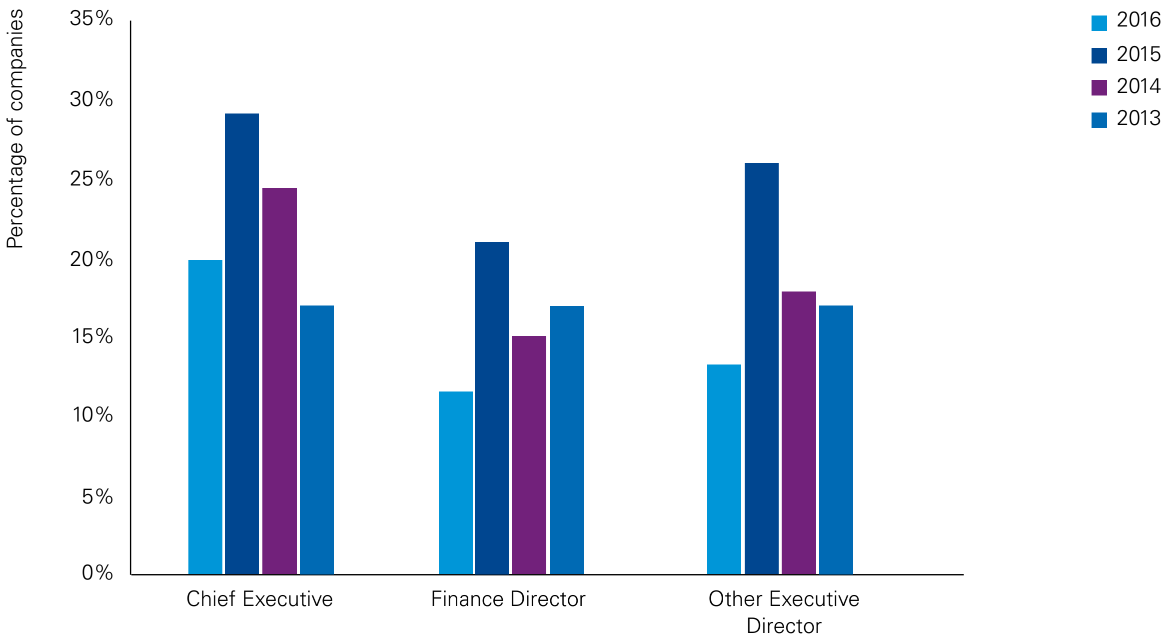
Basic salary

The chart below shows the prevalence of basic salary freezes for the last four years in the FTSE 350.

Basic salary freezes in the FTSE 350



Salary differentials by reference to role

The table below shows the internal ratio between the salaries of the finance director and other executive director positions as a percentage of the chief executive's salary. These percentages remain broadly consistent with previous years.

The table below shows FTSE 350 internal ratio of finance director and other executive directors' salaries expressed as a percentage of the CEO's salary.

		Lower Quartile	Median	Upper Quartile
FTSE 100	Finance Director	59%	64%	72%
	Other Executive Director	54%	63%	73%
FTSE 250	Finance Director	62%	66%	74%
	Other Executive Director	57%	66%	81%

"Companies continued to exercise restraint in 2016. Salary increases have remained modest again this year. Almost a fifth of CEOs in the FTSE 350 received no salary increase, a trend replicated for all executive directors. Companies remain cautious in their approach, continuing to take into account the increase given to the broader employee population and the wider economic environment. Where increases were provided, the median ranged around 3%."

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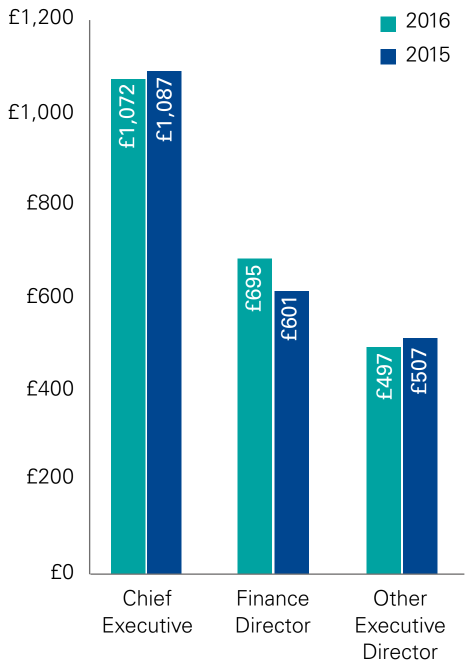
Annual bonus plans

Movements in total bonus payments compared with the previous year differ depending on market listing and role. Within the FTSE 100, total annual bonus payments have increased for finance directors and have gone down for CEOs and other executive directors.

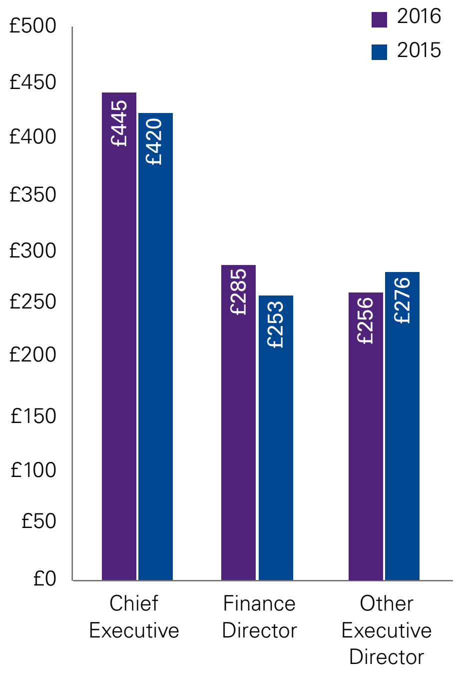
In the FTSE 250, bonus payments for CEOs and finance directors have marginally increased and slightly reduced for other executive directors. The percentage of FTSE 350 CEOs with a zero bonus in 2016 is 12% and for finance directors is 7%.

The charts below show the median total bonus payouts made in FTSE 100 and FTSE 250 companies.

FTSE 100 ('000s) Total bonus payments



FTSE 250 ('000s) Total bonus payments



More than a third of FTSE 350 companies paid their directors bonuses of over 80% of the maximum opportunity, whereas less than a quarter of companies paid bonuses of less than 50% of maximum.

The majority of companies paid bonuses of at least 60% of the maximum opportunity, which is the most commonly used target bonus opportunity among FTSE 350 companies.

Deferral in annual bonus plans

Deferral of at least part of the bonus is standard practice amongst the majority of companies and one that is expected by virtually all shareholder and regulatory bodies.

The median maximum bonus deferral within the FTSE 350 is 50%. Please see the Incentives section for more details.

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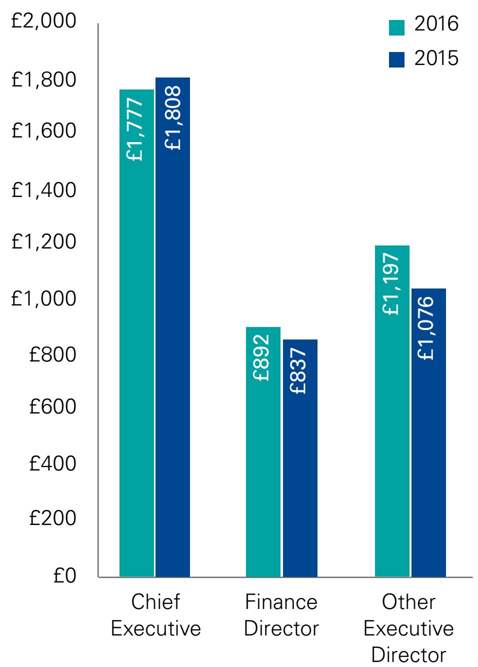
Long term incentive plans

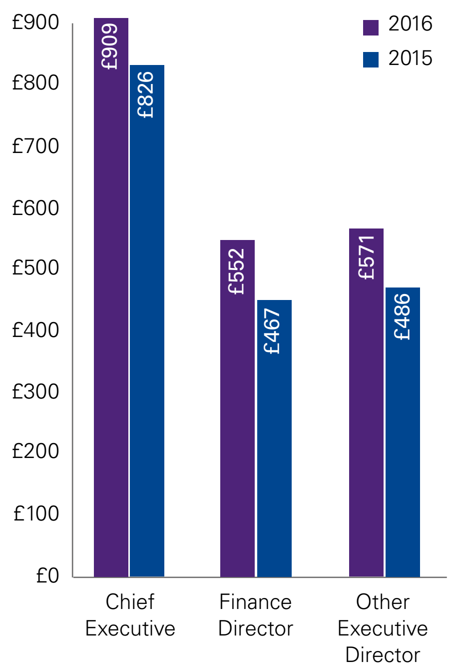
Performance share plans (PSPs) continue to be the most commonly used form of long term incentive plan while the use of option share plans continues to decline. Please see the Incentives section for more details on the design of PSPs.

The charts below show the median actual value of long term incentive plan awards vesting in the year as compared to 2015.

FTSE 100 ('000s) median actual value of performance share plan awards vesting in the year



FTSE 250 ('000s) median actual value of performance share plan awards vesting in the year



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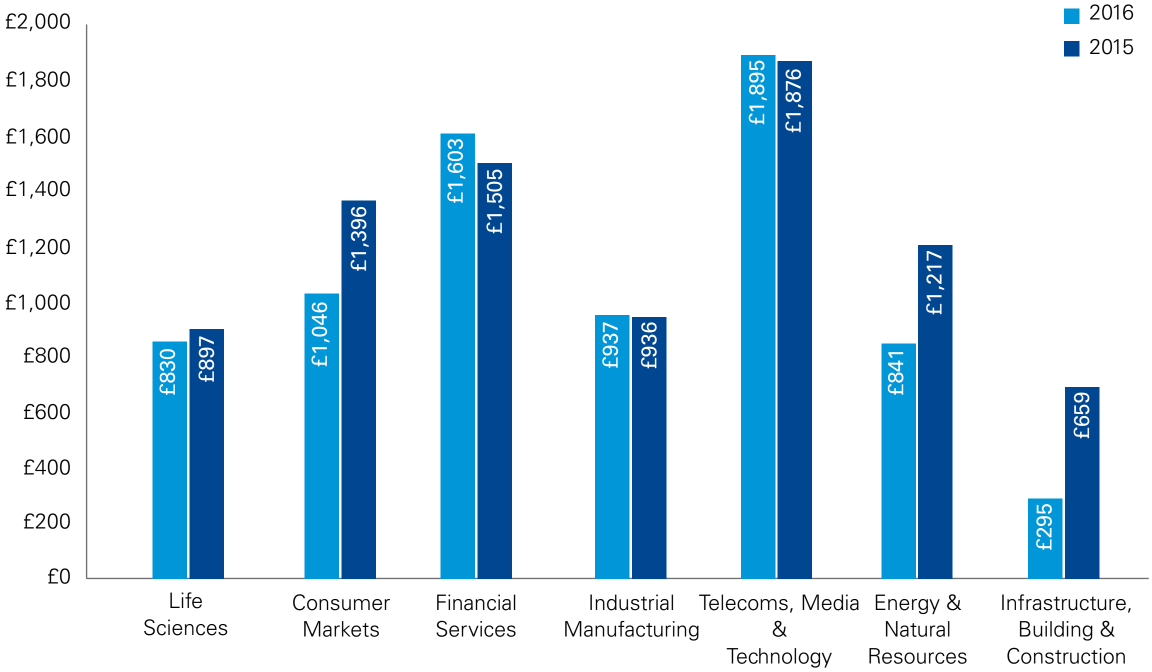
The following chart shows the median actual value of performance share plan awards vesting in the year in the FTSE 350 across different sectors.

FTSE 350 ('000s) CEOs only median actual value of performance share plan awards vesting in the year across different sectors



> Gains under long term incentive plans account for about a quarter of the overall remuneration package for CEOs in the FTSE 350 while benefits and pensions account for around 8%. However, while the investor and regulator focus remains on the design of incentive plans, the quantum of pay allocated to benefits and pension schemes is broadly ignored.

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04 Chief executive

This section provides information on the remuneration for the role of chief executive. This role represents the lead executive director at each company, so actual job titles included are chief executive officer, managing director, executive chairman and CEO, president and CEO.

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> The level of total earnings for both FTSE 100 and FTSE 250 CEOs has broadly remained at the same level compared to last year. Although there are differences between the ends of the FTSE spectrum, these are primarily driven by the award payouts rather than a shift in remuneration policy.

Total earnings

The following table shows the median basic salary, total cash and total earnings in the year for FTSE 100 and FTSE 250 companies (2015 data in parentheses).

Analysis includes all companies in the sample, regardless of changes of CEOs during the financial year. The methodology used to calculate these figures can be found in the appendix.

Chief Executive	Basic salary (£000s)	Total cash (£000s)	Total earnings (£000s)
FTSE 100	832 (838)	2,265 (2,292)	3,673 (3,921)
FTSE 250	525 (504)	1,105 (1,030)	1,557 (1,382)

Basic salary

As mentioned in the overview, basic salary increases have remained low in line with the year before, with 1 in 5 CEOs seeing a base salary freeze this year.

The table below shows increases in the FTSE 100 and FTSE 250 in the latest reported financial year, compared with the previous year's figures.

Chief Executive	Lower Quartile		Median		Upper Quartile	
	2016	2015	2016	2015	2016	2015
FTSE 100	1%	0%	3%	2%	5%	3%
FTSE 250	2%	0%	3%	2%	8%	5%

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Salary position and pay comparator groups

There is an assumption that the size of a company is highly correlated with basic salary levels for executive directors. The data below, showing basic salary levels by market capitalisation and turnover bands, supports this assumption.

Many companies therefore use market capitalisation as a key factor when comparing salary levels, but the volatility in the stock markets has shown that this can lead to unintended consequences.

For example, if pay is benchmarked to a group of peer companies selected by market capitalisation in one year, subsequent falls in market capitalisation for the company concerned will then mean it appears out of line with current peers.

Turnover is generally a less volatile indicator and therefore a prudent approach would be to consider both when looking at salaries and in assessing whether the data is appropriate.

The tables below show basic salary levels by market capitalisation and turnover bands.

Basic salary by market capitalisation

Chief Executive

Market Capitalisation		**Lower Quartile** (£'000s)	**Median** (£'000s)	**Upper Quartile** (£'000s)
FTSE 100	>£15bn	967	1,017	1,150
	£5bn - £15bn	611	747	855
	<£5bn	551	589	848
	All FTSE 100	614	832	995
FTSE 250	>£2bn	479	583	680
	£1bn - £2bn	452	525	575
	<£1bn	418	470	539
	All FTSE 250	445	525	588
FTSE 350	All FTSE 350	473	561	748

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Basic salary by turnover

Chief Executive

Turnover		Lower Quartile (£'000s)	Median (£'000s)	Upper Quartile (£'000s)
FTSE 100	>£15bn	943	975	1,060
	£5bn - £15bn	680	900	1,098
	<£5bn	575	707	855
	All FTSE 100	614	832	995
FTSE 250	>£1bn	550	588	725
	£500m - £1bn	456	507	550
	<£500m	401	452	528
	All FTSE 250	445	525	588
FTSE 350	All FTSE 350	473	561	748

Basic salary by sector within the FTSE 350

Chief Executive

Sector	Lower Quartile (£'000s)	Median (£'000s)	Upper Quartile (£'000s)
Life Sciences	463	549	764
Consumer Markets	510	574	740
Financial Services	403	500	614
Manufacturing & Services	535	575	705
Telecoms, Media & Technology	456	550	863
Energy & Natural Resources	555	766	1,025
Infrastructure, Building and Construction	537	605	723
FTSE 350	473	561	748

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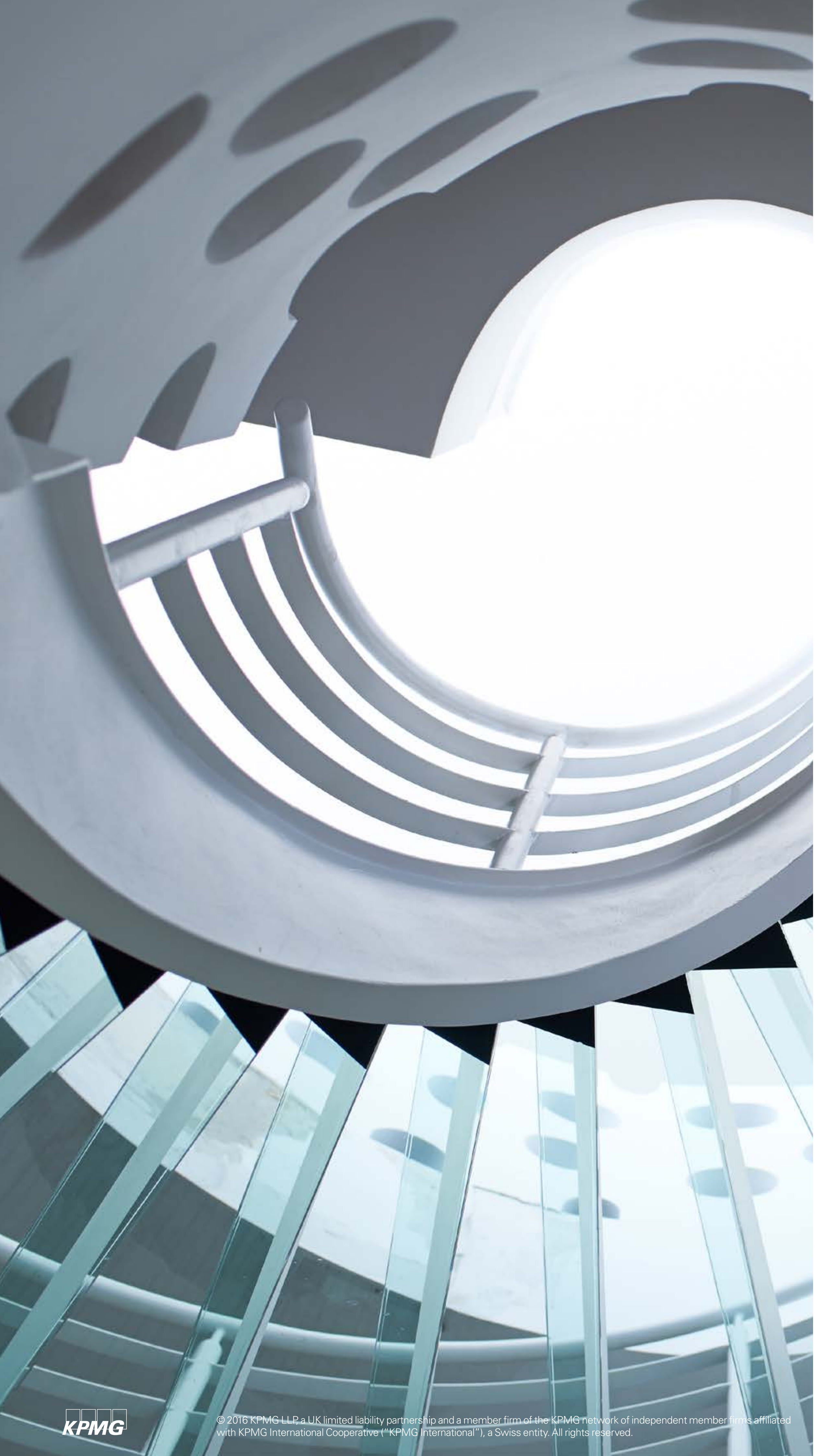

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Annual bonus plans

Nearly all of the companies in the FTSE 100 and FTSE 250 operate annual bonus plans for their executive directors.

The tables below show the following information for the FTSE 100 and the FTSE 250:
- The maximum potential bonus as a percentage of salary
- The total bonus paid as a percentage of salary
- The total bonus paid as a percentage of the maximum opportunity
- The total bonus paid in 2016 and in the previous year

Annual bonus

Chief Executive	FTSE 100			FTSE 250		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Maximum bonus opportunity (% of salary)	150%	185%	200%	100%	130%	150%
Total bonus (% of salary)	89%	134%	178%	43%	88%	128%
Total bonus (% of maximum bonus)	59%	80%	94%	39%	70%	89%
2016 Total bonus (£'000)	550	1,072	1,586	209	439	699
2015 Total bonus (£'000)	679	1,087	1,374	240	420	702

The following table shows the same information (at median) split by sector.

Median annual bonus by sector

Chief Executive	FTSE 350						
Sector (Median)	Life Sciences	Consumer Markets	Financial Services	Manufac-turing & Services	Telecoms, Media & Technology	Energy & Natural Resources	Infrastructure, Building and Construction
Maximum bonus opportunity (% of salary)	138%	150%	150%	125%	150%	150%	138%
Total bonus (% of salary)	98%	100%	122%	88%	105%	64%	112%
Total bonus (% of maximum bonus)	81%	73%	77%	65%	65%	54%	93%
2016 Total bonus (£'000)	413	503	744	460	546	476	785

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Annual bonus plans (continued)

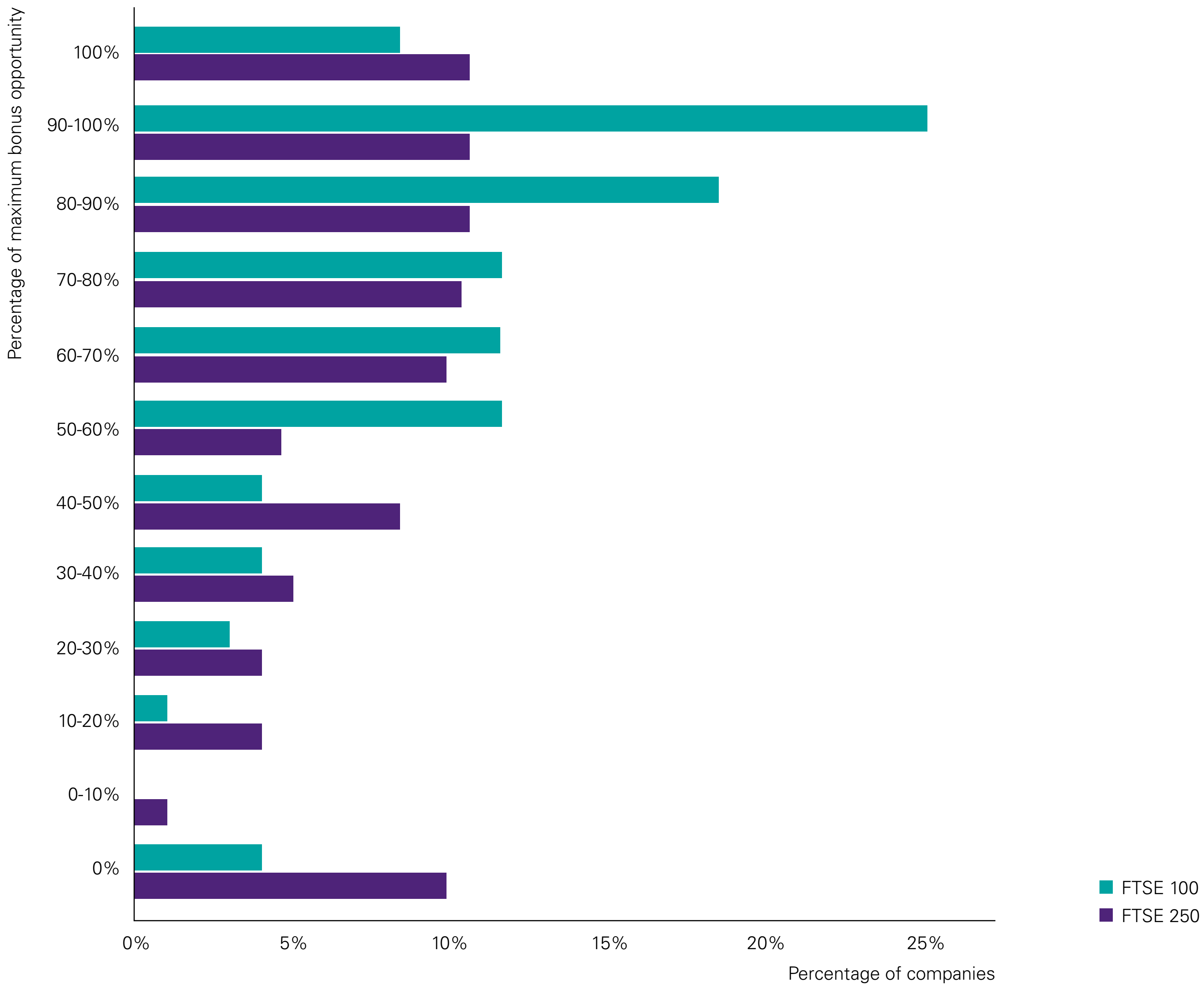
When compared to last year's report, maximum bonus opportunity has remained at the same level across the FTSE 100 and the FTSE 250. Total bonus payments have marginally increased by 2% across the FTSE350 and still operate at very high levels.

More than 35% of the FTSE 100 paid their CEO a bonus in excess of 90% of the maximum, while for the FTSE 250 this figure was around 25%. Less than 1 in 5 of FTSE 350 CEOs received a bonus of less than 30% of the maximum.

The percentage of maximum opportunity that has paid out has increased across the FTSE 100 and the FTSE 250.

The chart below shows the distribution of total bonuses (as a percentage of maximum bonus opportunity) for the FTSE 100 and FTSE 250 companies who have disclosed the maximum bonus opportunity.

Percentage of maximum annual bonus paid by companies



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Long term incentives

Performance share plans continue to be the most commonly used form of long term incentive plan amongst the FTSE 350. The number of companies still operating share option plans is too small to produce meaningful analysis, therefore this section focuses on performance share plans.

The tables below show the actual awards made (i.e. the face value of shares conditionally awarded) both as a percentage of salary and a monetary amount. The maximum award as a percentage of salary where this is disclosed, is also displayed.

Compared with last year, the median maximum potential award has remained constant across the FTSE 350 while the median actual gains have increased.

Performance share plans

Chief Executive	FTSE 100			FTSE 250		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Maximum award (% of salary)	250%	300%	400%	180%	200%	250%
Actual award (% of salary)	198%	279%	387%	147%	178%	220%
Actual award (£'000)	1,501	2,152	3,693	664	922	1,286
Actual gains (% of salary)	42%	151%	346%	0%	41%	206%

The following table shows the same information (at median) split by sector.

Performance share plans by sector

Chief Executive	FTSE 350						
Sector (Median)	Life Sciences	Consumer Markets	Financial Services	Manufacturing & Services	Telecoms, Media & Technology	Energy & Natural Resources	Infrastructure, Building and Construction
Actual award (% of salary)	200%	199%	203%	202%	220%	195%	170%
Actual award (£'000)	1,067	1,138	1,132	1,180	1,149	1,227	933
Actual gains (% of salary)	98%	42%	168%	51%	63%	17%	111%

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05

Finance director

This section provides information on remuneration for the role of finance director.

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> Median total earnings have increased for finance directors in the FTSE 250 and in the FTSE 100, driven by increases in both fixed and variable elements of pay.

Total earnings

The following table shows the median basic salary, total cash and total earnings in the year for FTSE 100 and FTSE 250 companies (2015 data in parentheses).

Analysis includes all companies in the sample, regardless of changes of finance directors during the financial year. The methodology used to calculate these figures can be found in the appendix.

Finance Director	Basic salary (£000s)	Total cash (£000s)	Total earnings (£000s)
FTSE 100	539 (498)	1,504 (1,268)	2,206 (2,123)
FTSE 250	345 (330)	710 (678)	966 (838)

Basic salary

Only 12% of finance directors received a pay freeze this year, compared to about a quarter last year.

The table below shows increases in the FTSE 100 and FTSE 250 in the latest reported financial year, compared with the previous year's figures.

Finance Director	Lower Quartile		Median		Upper Quartile	
	2016	2015	2016	2015	2016	2015
FTSE 100	2%	1%	3%	2%	4%	3%
FTSE 250	2%	2%	3%	3%	7%	6%

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Salary position and pay comparator groups

The size of a company is highly correlated with basic salary levels for executive directors. This can be seen from the tables below which show the basic salary levels by market capitalisation bands and also by turnover bands.

Many companies use market capitalisation as a key factor when comparing salary levels, but the volatility in the stock markets has shown that this can lead to unintended consequences. For example, if pay is benchmarked to a group of peer companies selected by market capitalisation in one year, subsequent falls in market capitalisation for the company concerned will then mean it appears out of line with current peers. Turnover is generally a less volatile indicator and therefore a prudent approach would be to consider both when looking at salaries and form a view as to the appropriateness of the data.

Data is shown here for 2016. When compared to the 2015 report the picture is mixed, which highlights the potential difficulties in following a market point too closely.

The tables below show basic salary levels by market capitalisation and turnover bands.

Basic salary by market capitalisation

Finance Director

Market Capitalisation		**Lower Quartile** (£'000s)	**Median** (£'000s)	**Upper Quartile** (£'000s)
FTSE 100	>£15bn	637	703	736
	£5bn - £15bn	451	491	539
	<£5bn	381	442	520
	All FTSE 100	455	539	694
FTSE 250	>£2bn	326	390	440
	£1bn - £2bn	305	351	389
	<£1bn	274	315	337
	All FTSE 250	300	345	395
FTSE 350	All FTSE 350	323	380	494

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Basic salary by turnover

Finance Director

Turnover		Lower Quartile (£'000s)	Median (£'000s)	Upper Quartile (£'000s)
FTSE 100	>£15bn	618	694	733
	£5bn - £15bn	528	550	658
	<£5bn	408	482	544
	All FTSE 100	455	539	694
FTSE 250	>£1bn	350	400	452
	£500m - £1bn	307	324	360
	<£500m	274	310	355
	All FTSE 250	300	345	395
FTSE 350	All FTSE 350	323	380	494

Basic salary by sector within the FTSE 350

Finance Director

Sector	Lower Quartile (£'000s)	Median (£'000s)	Upper Quartile (£'000s)
Life Sciences	309	344	424
Consumer Markets	341	400	508
Financial Services	289	353	442
Manufacturing & Services	338	364	455
Telecoms, Media & Technology	352	457	591
Energy & Natural Resources	400	532	732
Infrastructure, Building and Construction	316	370	456
FTSE 350	323	380	494

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Annual bonus plans

The tables below show the following information for the FTSE 100 and the FTSE 250:

- The maximum potential bonus as a percentage of salary
- The total bonus paid as a percentage of salary
- The total bonus paid as a percentage of the maximum opportunity
- The total bonus paid in 2016 and in the previous year

Annual bonus

Finance Director	FTSE 100			FTSE 250		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Maximum bonus opportunity (% of salary)	129%	150%	200%	100%	120%	150%
Total bonus (% of salary)	90%	128%	154%	47%	86%	113%
Total bonus (% of maximum bonus)	67%	80%	94%	44%	67%	87%
2016 Total bonus (£'000)	425	695	909	157	285	405
2015 Total bonus (£'000)	457	601	813	175	253	361

The following table shows the same information (at median) split by sector.

Median annual bonus by sector

Finance Director	FTSE 350						
Sector (Median)	Life Sciences	Consumer Markets	Financial Services	Manufac-turing & Services	Telecoms, Media & Technology	Energy & Natural Resources	Infrastructure, Building and Construction
Maximum bonus opportunity (% of salary)	123%	130%	150%	120%	150%	130%	138%
Total bonus (% of salary)	90%	86%	115%	80%	105%	75%	113%
Total bonus (% of maximum bonus)	76%	69%	84%	64%	69%	72%	85%
2016 Total bonus (£'000)	267	320	494	290	481	416	350

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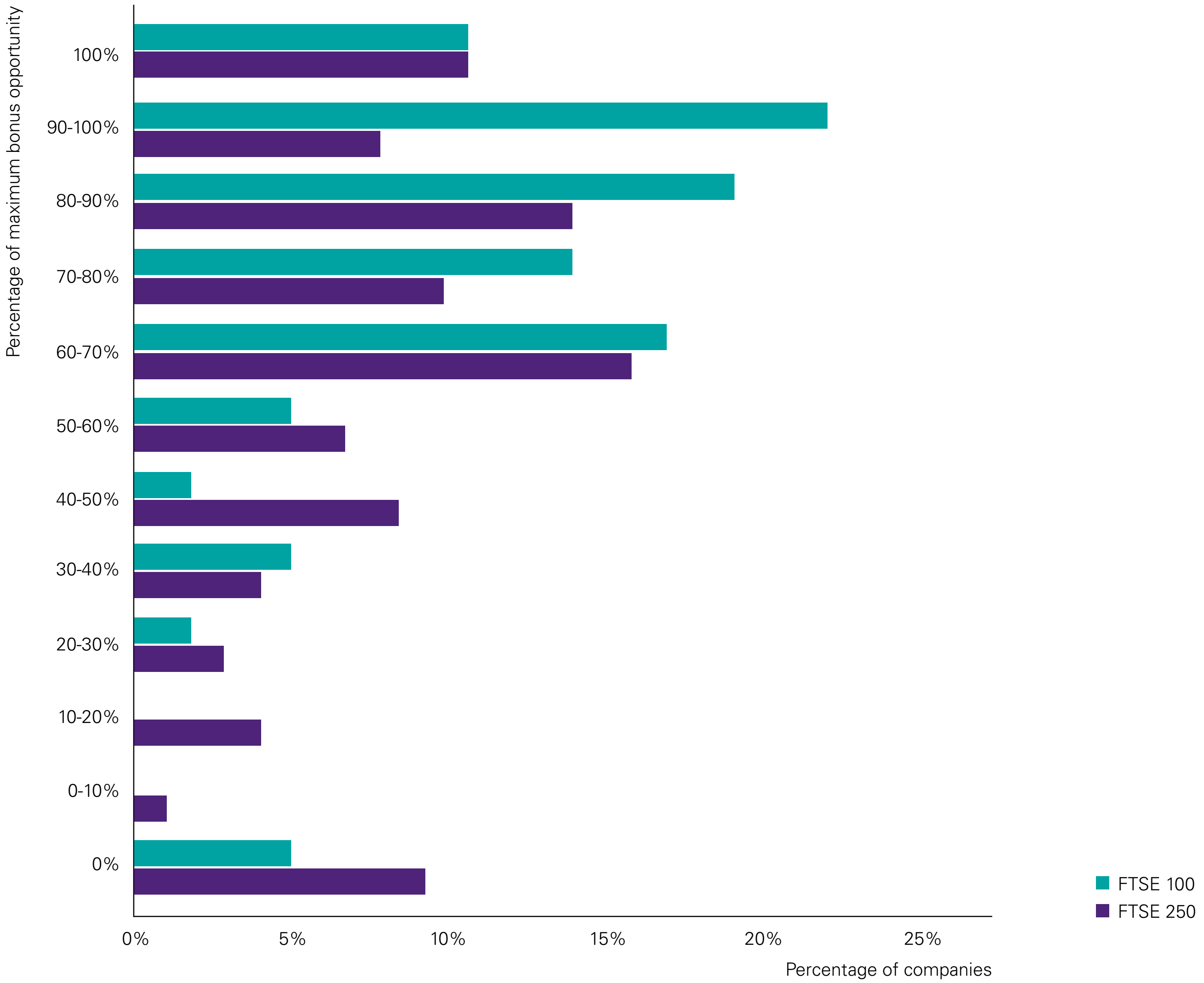
Annual bonus plans (continued)

A third of companies in the FTSE 250 and more than half of the FTSE 100 paid their finance director a bonus in excess of 80% of the maximum. Less than a fifth of finance directors received a bonus of less than 30% of the maximum.

The majority of companies in the FTSE 350 paid bonuses of over 60% of maximum opportunity. It is worth noting that the percentage of executives receiving the maximum bonus has more than halved in the FTSE 350 compared to last year.

The chart below shows the distribution of total bonuses (as a percentage of maximum bonus opportunity) for the FTSE 100 and FTSE 250 companies who have disclosed the maximum bonus opportunity.

Percentage of maximum annual bonus paid by companies



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Long term incentives

The tables below show the actual awards made (i.e. the face value of shares conditionally awarded) both as a percentage of salary and a monetary amount. The maximum award as a percentage of salary where this is disclosed, is also displayed.

Compared with last year, the median maximum potential award has remained constant across the FTSE 350 while the median actual gains have increased.

Performance share plans

Finance Director	FTSE 100			FTSE 250		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Maximum award (% of salary)	195%	250%	330%	150%	185%	200%
Actual award (% of salary)	180%	246%	301%	125%	155%	218%
Actual award (£'000)	780	1,239	2,144	389	552	885
Actual gains (% of salary)	0%	122%	275%	0%	42%	185%

The following table shows the same information (at median) split by sector.

Performance share plans by sector

Finance Director	FTSE 350						
Sector (Median)	Life Sciences	Consumer Markets	Financial Services	Manufac-turing & Services	Telecoms, Media & Technology	Energy & Natural Resources	Infrastructure, Building and Construction
Actual award (% of salary)	177%	172%	199%	173%	233%	237%	152%
Actual award (£'000)	672	728	702	653	1,239	1,181	614
Actual gains (% of salary)	83%	48%	152%	32%	12%	41%	138%

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06

Other executive director

This section provides information on remuneration for the role of other executive directors. Other executive directors include a variety of roles with different responsibilities, including functional and divisional directors.

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> We have seen total earnings for other executive directors in the FTSE 250 increase this year when compared to last year, while they remained at broadly the same level in the FTSE 100.

Total earnings

The following table shows the median basic salary, total cash and total earnings in the year for FTSE 100 and FTSE 250 companies (2015 data in parentheses).

Analysis includes all companies in the sample, regardless of changes of executive directors during the financial year. The methodology used to calculate these figures can be found in the appendix.

Other Director	Basic salary (£000s)	Total cash (£000s)	Total earnings (£000s)
FTSE 100	410 (440)	1,077 (1,107)	1,883 (2,048)
FTSE 250	332 (325)	671 (671)	981 (1,012)

Basic salary

Only 13% of other executive directors received a pay freeze this year, compared to about a quarter last year.

The table below shows increases in the FTSE 100 and FTSE 250 in the latest reported financial year, compared with the previous year's figures.

Other Director	Lower Quartile		Median		Upper Quartile	
	2016	2015	2016	2015	2016	2015
FTSE 100	2%	0%	3%	2%	8%	4%
FTSE 250	2%	0%	3%	3%	4%	5%

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Salary position and pay comparator groups

The size of a company is highly correlated with basic salary levels for executive directors. This can be seen from the tables below which show the basic salary levels by market capitalisation bands and turnover bands.

Many companies use market capitalisation as a key factor when comparing salary levels, but the volatility in the stock markets has shown that this can lead to unintended consequences. For example if pay is benchmarked to a group of peer companies selected by market capitalisation in one year, subsequent falls in market capitalisation for the company concerned will then mean it appears out of line with current peers.

Turnover is generally a less volatile indicator and therefore a prudent approach would be to consider both when looking at salaries and form a view as to the appropriateness of the data.

When compared to the 2015 report it is difficult to identify trends across the different size bands; this reflects the differing nature of the roles included within this category of executives.

The tables below show basic salary levels by market capitalisation and turnover bands.

Basic salary by market capitalisation

Other Director

Market Capitalisation		**Lower Quartile** (£'000s)	**Median** (£'000s)	**Upper Quartile** (£'000s)
FTSE 100	>£15bn	637	700	795
	£5bn - £15bn	348	375	456
	<£5bn	359	365	416
	All FTSE 100	356	410	625
FTSE 250	>£2bn	333	363	421
	£1bn - £2bn	244	295	381
	<£1bn	273	301	333
	All FTSE 250	279	332	382
FTSE 350	All FTSE 350	301	355	439

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Basic salary by turnover

Other Director

Turnover		Lower Quartile (£'000s)	Median (£'000s)	Upper Quartile (£'000s)
FTSE 100	>£15bn	633	672	801
FTSE 100	£5bn - £15bn	438	546	677
FTSE 100	<£5bn	348	374	448
FTSE 100	All FTSE 100	356	410	625
FTSE 250	>£1bn	319	345	420
FTSE 250	£500m - £1bn	273	308	340
FTSE 250	<£500m	245	325	379
FTSE 250	All FTSE 250	279	332	382
FTSE 350	All FTSE 350	301	355	439

Basic salary by sector within the FTSE 350

Other Director

Sector	Lower Quartile (£'000s)	Median (£'000s)	Upper Quartile (£'000s)
Life Sciences	281	325	436
Consumer Markets	277	344	404
Financial Services	330	359	414
Manufacturing & Services	304	348	445
Telecoms, Media & Technology	170	261	348
Energy & Natural Resources	383	501	621
Infrastructure, Building and Construction	326	344	454
FTSE 350	301	355	439

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Annual bonus plans

The tables below show the following information for the FTSE 100 and the FTSE 250:
- The maximum potential bonus as a percentage of salary
- The total bonus paid as a percentage of salary
- The total bonus paid as a percentage of the maximum opportunity
- The total bonus paid in 2016 and in the previous year

Annual bonus

Other Director	FTSE 100			FTSE 250		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Maximum bonus opportunity (% of salary)	150%	150%	200%	100%	125%	150%
Total bonus (% of salary)	79%	108%	146%	55%	86%	124%
Total bonus (% of maximum bonus)	50%	76%	93%	39%	71%	87%
2016 Total bonus (£'000)	341	497	850	177	256	426
2015 Total bonus (£'000)	358	507	728	165	276	389

The following table shows the same information (at median) split by sector.

Median annual bonus by sector

Other Director	FTSE 350						
Sector (Median)	Life Sciences	Consumer Markets	Financial Services	Manufac-turing & Services	Telecoms, Media & Technology	Energy & Natural Resources	Infrastructure, Building and Construction
Maximum bonus opportunity (% of salary)	100%	100%	150%	106%	148%	150%	150%
Total bonus (% of salary)	76%	67%	120%	81%	85%	100%	152%
Total bonus (% of maximum bonus)	70%	58%	75%	62%	36%	40%	100%
2016 Total bonus (£'000)	233	221	439	295	168	533	602

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Annual bonus plans (continued)

When compared to previous years, maximum bonus opportunity has remained broadly flat across the FTSE 350.

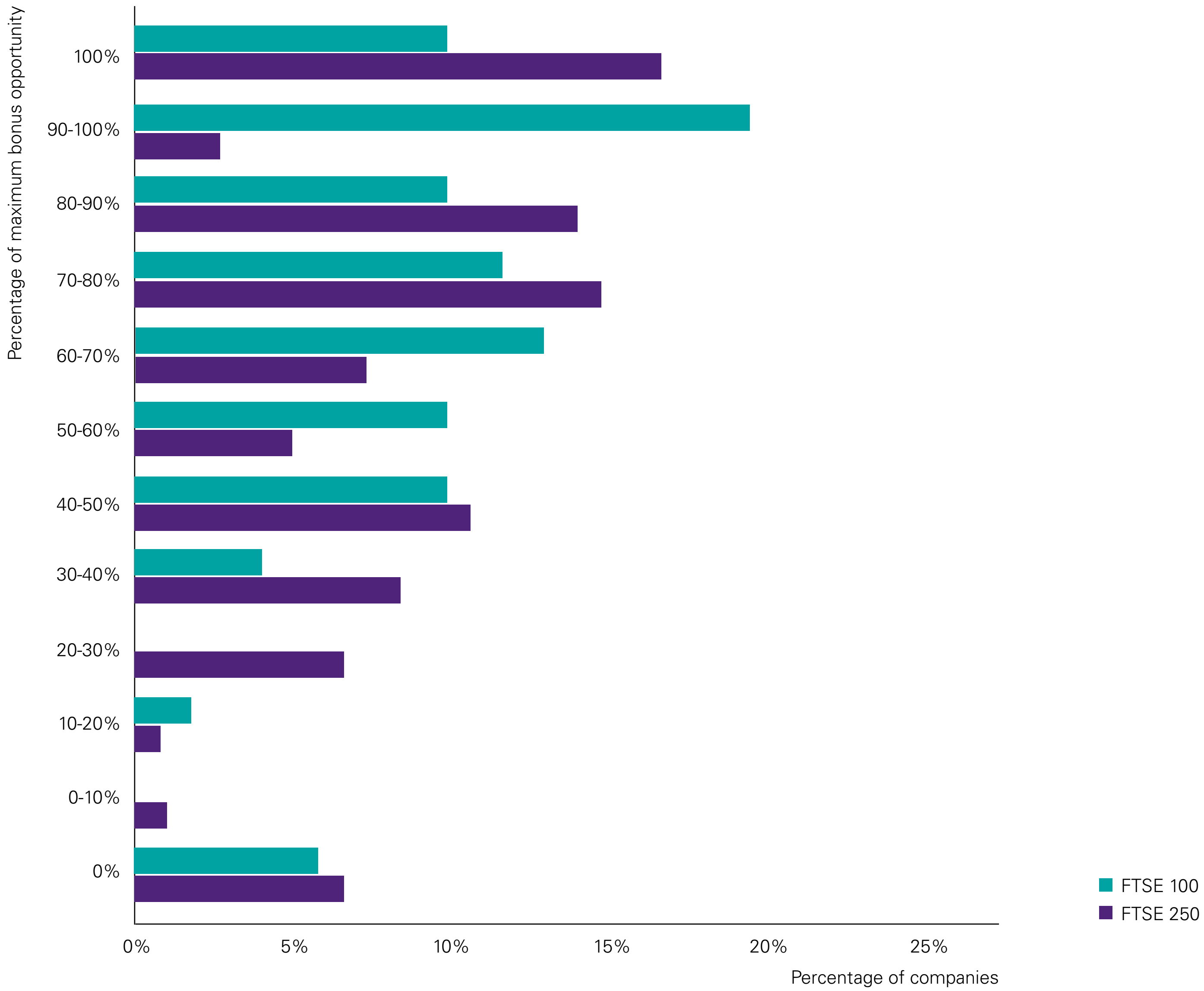
Median total bonus payments have shown to increase slightly from last year in the FTSE 250, but remained broadly at the same levels in the FTSE 100.

Over a third of companies in the FTSE 350 paid their other directors a bonus in excess of 80% of the maximum, and in the FTSE 100 this reaches above 90%.

Less than a quarter in the FTSE 250 and less than a fifth of other directors in the FTSE 100 received a bonus of less than 30% of the maximum. The majority of companies paid bonuses of over 60% of maximum.

The chart below shows the distribution of total bonuses (as a percentage of maximum bonus opportunity) for the FTSE 100 and FTSE 250 companies who have disclosed the maximum bonus opportunity.

Percentage of maximum annual bonus paid by companies



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Long term incentives

The tables below show the actual awards made (i.e. the face value of shares conditionally awarded) both as a percentage of salary and a monetary amount. The maximum award as a percentage of salary where this is disclosed, is also displayed.

The data shows that the actual awards made have reduced at the market median across the FTSE 350.

Performance share plans

Other Director	FTSE 100			FTSE 250		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Maximum award (% of salary)	185%	250%	300%	150%	180%	200%
Actual award (% of salary)	168%	217%	287%	120%	146%	180%
Actual award (£'000)	671	974	1,457	316	462	626
Actual gains (% of salary)	37%	155%	253%	0%	87%	249%

The following table shows the same information (at median) split by sector.

Performance share plans by sector

Other Director	FTSE 350						
Sector (Median)	Life Sciences	Consumer Markets	Financial Services	Manufac-turing & Services	Telecoms, Media & Technology	Energy & Natural Resources	Infrastructure, Building and Construction
Actual award (% of salary)	120%	145%	174%	177%	222%	147%	220%
Actual award (£'000)	420	493	617	621	759	511	999
Actual gains (% of salary)	25%	154%	183%	78%	56%	0%	678%

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07

Incentives

This section of the report discusses trends in incentives, specifically the structure of incentives and performance conditions attached to incentives. Market data relating to quantum and payouts for each executive director role is contained in the previous sections.

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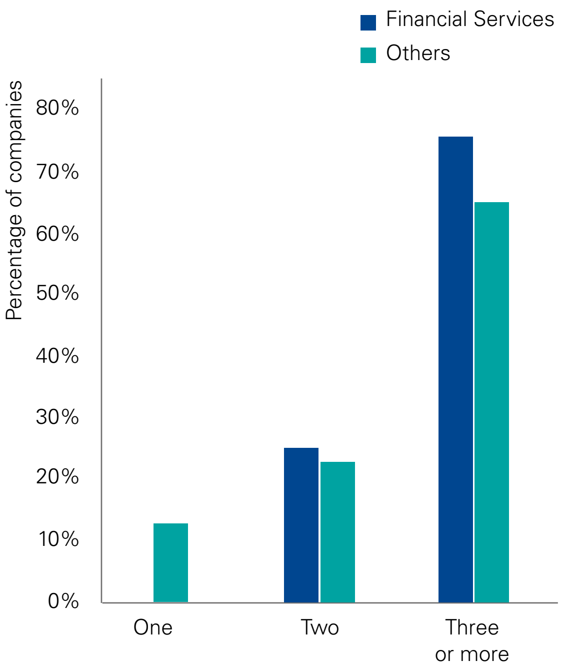
> Annual bonus plans continue to be a key element of the remuneration mix. In recent years, the pressure to align annual bonuses paid with performance and incentives strategy has led to an increase in the number of performance measures used.

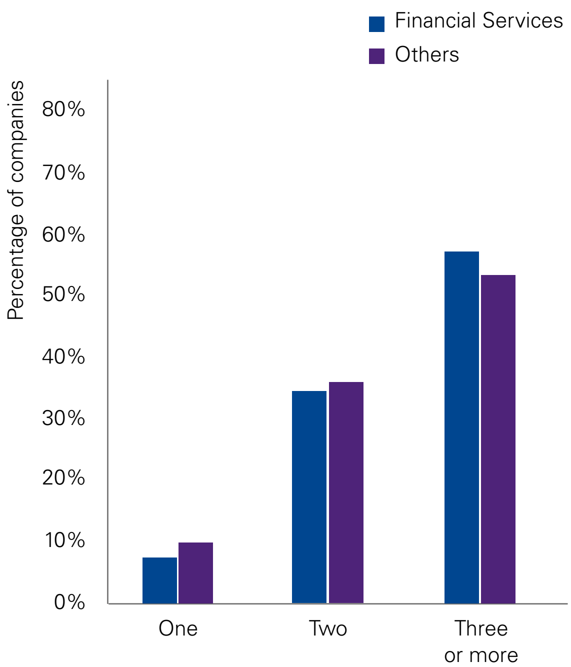
Annual bonus plans

More than two thirds of FTSE 350 companies use three or more performance measures. Financial services sector companies across the FTSE 350 lead the way in using three or more performance measures; only three financial services sector companies in the FTSE 250 and none in the FTSE 100 use a single measure.

Number of measures in annual bonus plans: FTSE 100



Number of measures in annual bonus plans: FTSE 250



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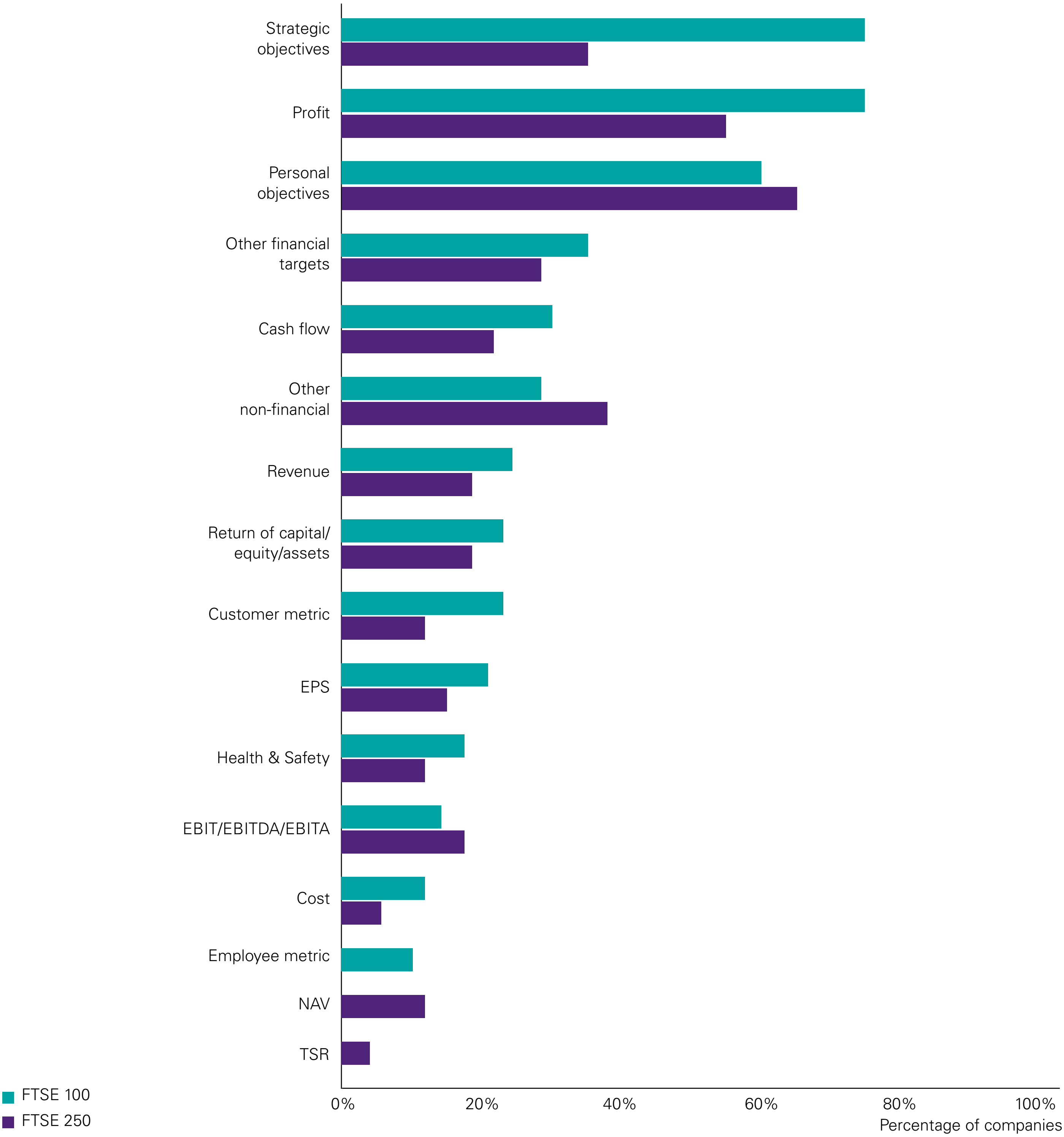
Performance measures in annual bonus plans

The chart below illustrates performance measures typically used in FTSE 100 and FTSE 250 companies. The totals are greater than 100 percent given the frequent use of multiple performance measures. The most common combination of performance measures is some form of profit measure in conjunction with a non-financial metric and individual personal objectives. The most common non-financial metrics differ by sector and typically relate to a customer target, an employee metric or an EHS (environmental, health and safety) target.

From the perspective of shareholders, the use of multiple financial and non-financial performance measures aligns to best practice and helps to ensure that a balanced approach is taken. The focus however, will remain on the relationship between these measures and the proportion of the bonus award attached to each measure. For example, a key consideration is the minimum level of financial performance before any payment is made.

Performance conditions in annual bonus plans



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Deferred annual bonus plans

Corporate governance and the need to take account of risk in setting remuneration has driven an increase in the deferred element of pay. Deferred annual bonus plans (DABs) remain a key tool in remuneration planning, although investors still view them critically due to their complexity.

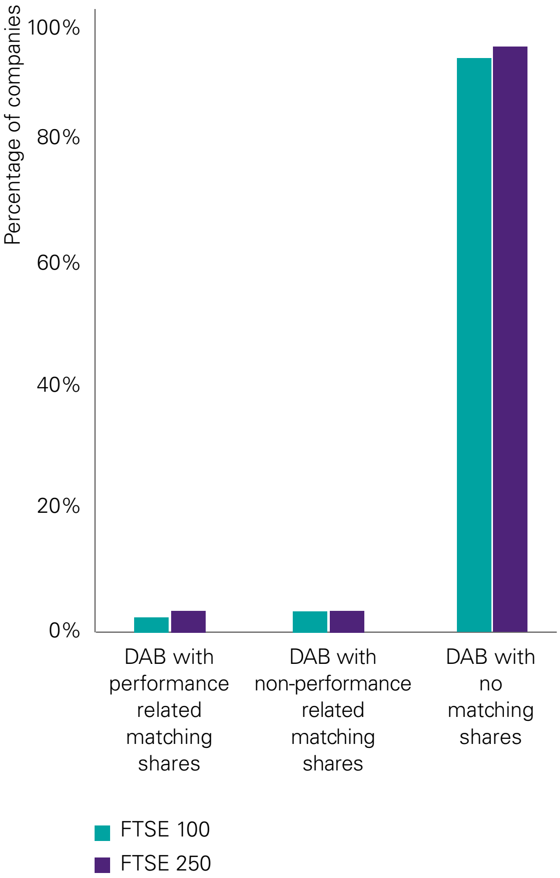
A deferred annual bonus plan involves the voluntary or compulsory deferral of some or all of an annual bonus into company shares, which are then restricted for a period of time (deferred shares). Some live plans provide for matching shares, which typically vest to the extent that performance conditions are met over the performance period, most commonly three years.

However this type of matching arrangement is becoming less common, and this is reflected in the high proportion of plans which now have compulsory deferral rather than voluntary.

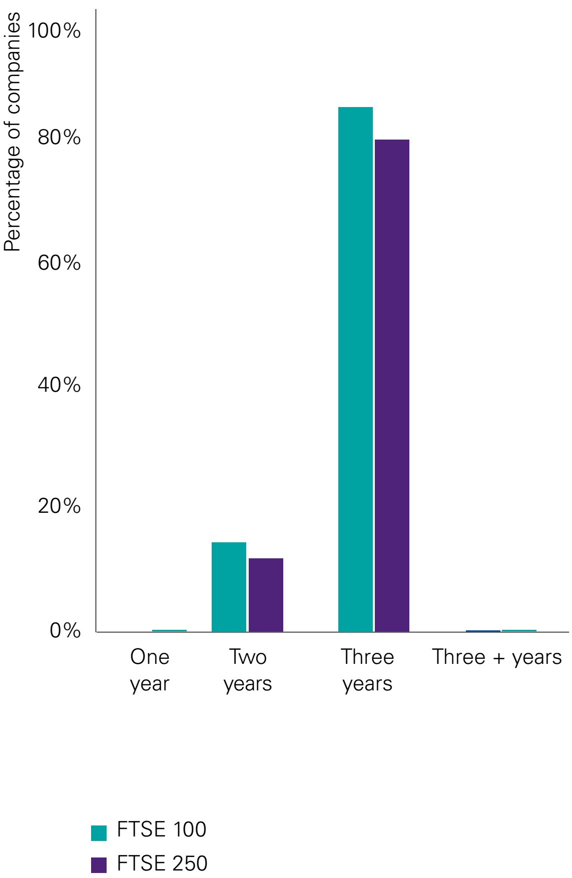
The chart below shows the different types of plan which are currently in operation for the FTSE 100 and the FTSE 250.

The chart below shows the length of deferral period used by FTSE 100 and FTSE 250 companies which have disclosed this information. The most common deferral period remains at 3 years.

Type of live DAB plans in FTSE 350



Deferral Periods



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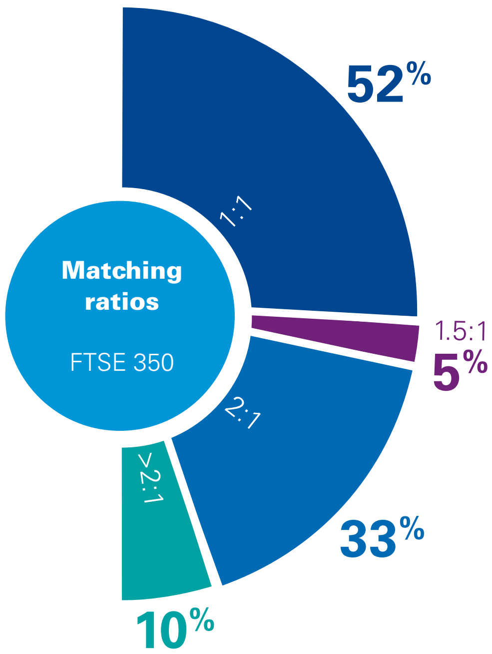
The table below shows the type of deferrals made under these plans by FTSE 100 and FTSE 250 companies.

Compulsory vs voluntary deferral (% of plans)

FTSE 100			FTSE 250		
Voluntary deferral	Compulsory deferral	Combination of voluntary and compulsory	Voluntary deferral	Compulsory deferral	Combination of voluntary and compulsory
3%	92%	5%	2%	98%	0%

Matching ratios

The chart below shows the maximum performance-related matching share award in FTSE 350 companies where a match is provided. The number of companies providing a match is now a small minority.



As shown from the type of live DAB plans chart in the previous page, less than 15% of FTSE 350 companies grant performance related matching shares.

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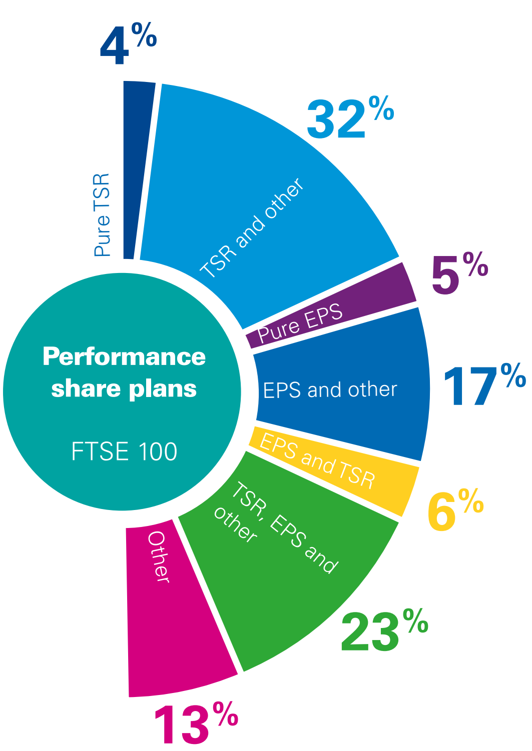
Performance share plans

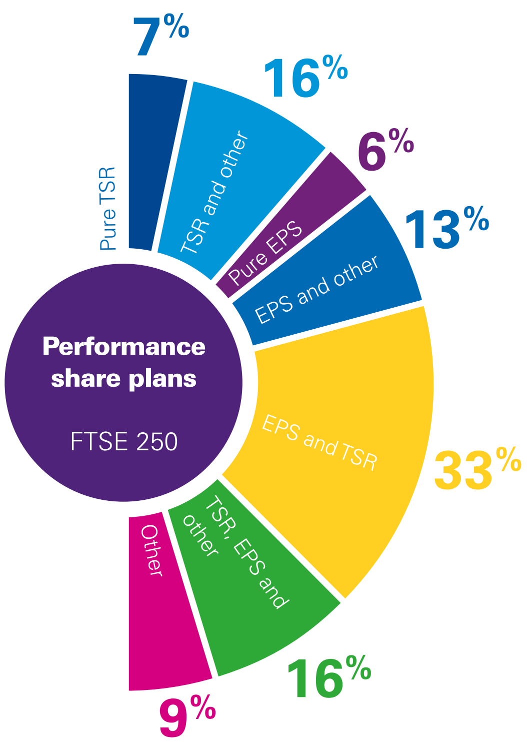
Performance share plans continue to be the most commonly used form of long term incentive plan. Information relating to awards for each executive director role is contained in the previous sections. The following section provides data relating to the use of performance conditions.

Performance conditions

The use of some form of TSR measure, either as a single measure or in conjunction with another approach, continues to be the most popular measure across the FTSE 350.

The following charts show the measures that are currently in use. 'Other' measures include profit, cashflow, share price targets and return on capital.





The use of TSR as a performance measure

Of those companies using TSR as a performance measure, the majority do so on a comparative basis. The traditional ranking approach against a peer group remains the most common methodology. However, a number of companies measure outperformance against an index, particularly in the FTSE 250. A small number of companies use absolute TSR. This is more common in the FTSE 250.

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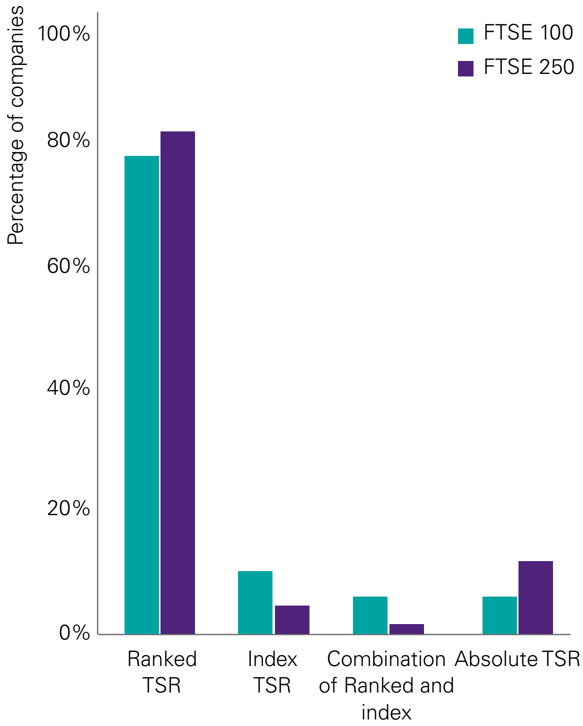
The following charts show the number of measures that are currently in use. As most of the FTSE 350 companies will be putting their 2017 remuneration policies to a shareholder vote next year, it will interesting to see whether single performance condition share plans become more prevalent given the shareholders focus on simplicity.

Number of measures in performance share plans

TSR Targets



Relative TSR performance for maximum award

The table below shows the level of performance required for full vesting under the plan, reflecting that companies are continuing to follow best practice with full vesting not occurring below the upper quartile.

	FTSE 100	FTSE 250
Level of performance required for full vesting	% of companies	% of companies
>90th percentile	0%	0%
90th percentile	6%	4%
76th - 89th percentile	28%	9%
75th percentile	61%	88%
<75th percentile	6%	0%

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08 Pensions

This section provides information on the pension arrangements of executive directors and their role in the total remuneration mix.

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> Pension levels are now equivalent to a quarter of a FTSE100 CEO's basic salary. Will the value of pensions for executive directors be the next area of shareholders focus?

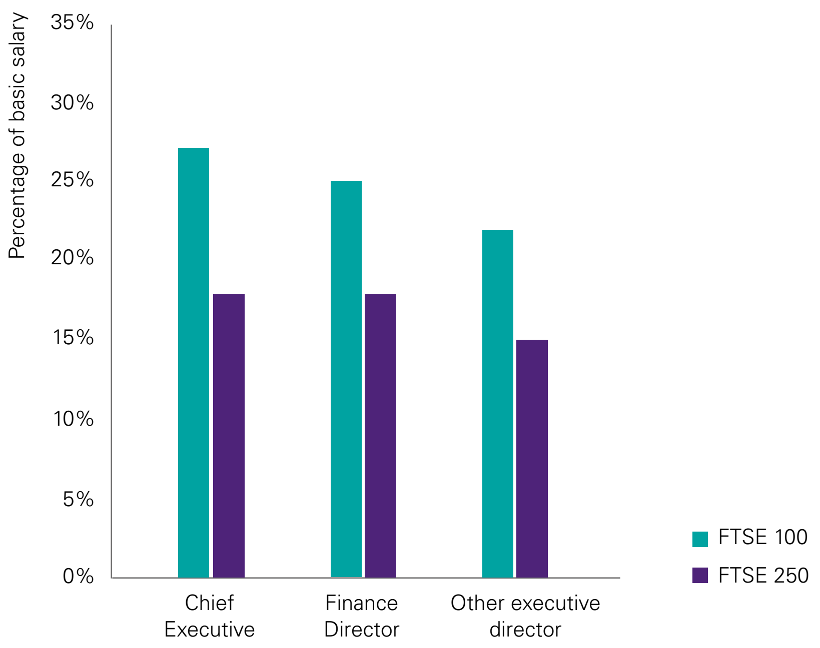
Pensions has seen continuous change over the last decade, the outcomes of which has been the steady erosion of traditional pension provision – either defined benefit or defined contribution, at senior executive level. For those executives who have been increasingly caught by the reducing lifetime and annual allowances, the employing company response has been largely to replace the pension provisions with a cash supplement. For FTSE 100 executive directors this provision is now equivalent to 25% of basic salary at the median level and makes up around 7% of total earnings. This has now started to come under the scrutiny of the fund management industry – with some fund managers recently calling for employer contributions on behalf of executives to be brought into line with those at the general employee population.

FTSE 350 pension schemes

The chart shows the median pension values as a percentage of basic salary. These values reflect those included in the single figure table.

Cash in lieu of pension is the most common pension arrangement across the FTSE 350, while participation in defined benefit schemes continues to diminish.

Median pension values for all schemes as percentage of base salary



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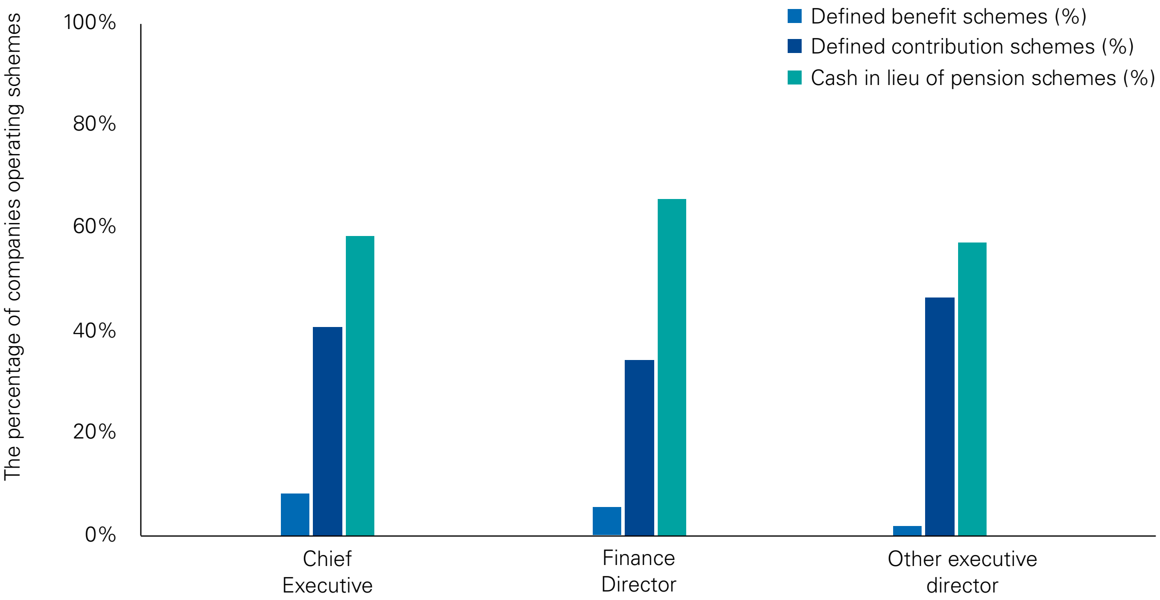
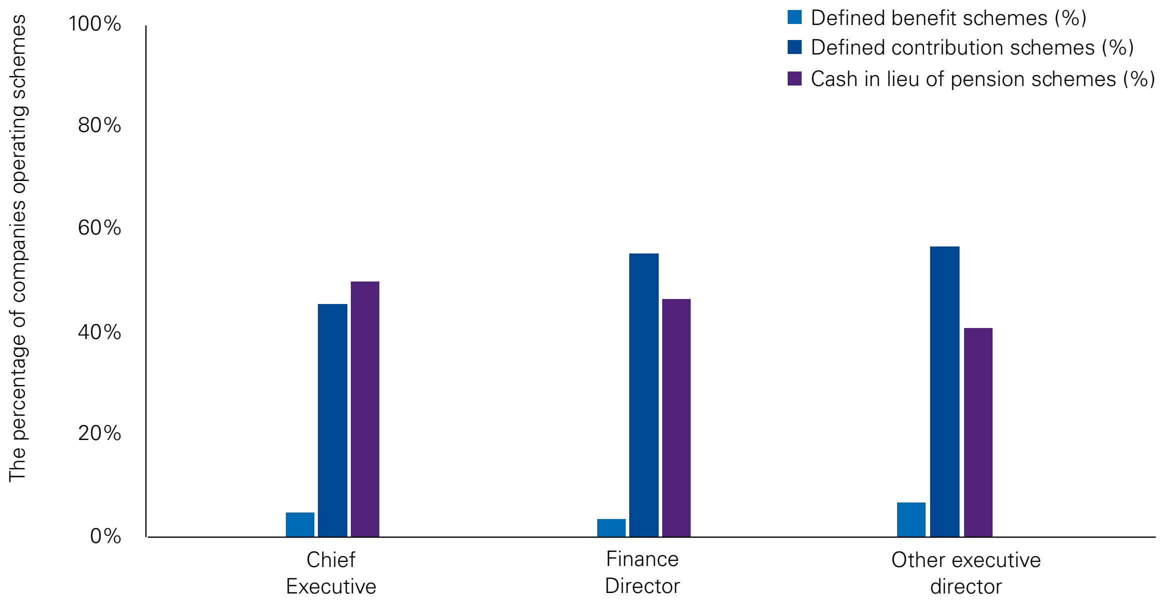
> Pension value as a percentage of total earnings is relatively low at around 6%, but they do make up a significant amount of fixed remuneration.

The following charts show that the use of cash in lieu of pension is also prevalent, but more prominent across the FTSE 100.

FTSE 100 pension arrangements



FTSE 250 pension arrangements



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It is worth noting that a number of companies operate more than one pension arrangement at executive level, as shown by the table below.

This is often due to a combination of differing new hire policy and existing/legacy pension arrangements.

FTSE 350 use of more than one pension scheme

Use of more than one scheme

FTSE 100	Chief Executive	13%
	Finance Director	7%
	Other Executive Director	7%

Use of more than one scheme

FTSE 250	Chief Executive	12%
	Finance Director	10%
	Other Executive Director	10%

The following table shows the median values for each type of pension scheme in the FTSE 100 and FTSE 250.

Median pension values for different schemes

		Cash in lieu of pension schemes (£'000)	Defined contribution schemes (£'000)
FTSE 100	Chief Executive	206	168
	Finance Director	144	123
	Other Executive Director	95	52
FTSE 250	Chief Executive	105	67
	Finance Director	60	47
	Other Executive Director	58	43

The following table shows the median values for each type of pension scheme as a percentage of salary in the FTSE 100 and FTSE 250.

Median pension values for different schemes as percentage of salary

		Cash in lieu of pension schemes (% of salary)	Defined contribution schemes (% of salary)
FTSE 100	Chief Executive	27%	25%
	Finance Director	25%	25%
	Other Executive Director	24%	14%
FTSE 250	Chief Executive	20%	15%
	Finance Director	19%	15%
	Other Executive Director	15%	15%

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09

Non-executive director

This section provides information on remuneration for the role of chairman and non-executive director.

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> The role of the non-executive director and its growing level of responsibility has attracted the interest of shareholders and regulators alike. Under the new regulatory regime, non-executive directors of most financial services companies will have similar levels of accountability to senior management.

Fee increases

Continuing the trend from previous years, companies are cautious in their approach to fee increases for non-executive directors, in the same way as they are for executive directors.

Less than a fifth of FTSE 350 companies increased fee levels for the chairmen and other non-executive directors.

Percentage of companies not increasing fees

	Non-executive chairman	Other non-executive director
FTSE 100	85%	89%
FTSE 250	91%	79%

Where increases have been given these often reflect the fact that reviews are not carried out on an annual basis, and as such these may be higher than those for executives.

The following table shows the fee increases for the FTSE 100 and FTSE 250 for companies which did increase fee levels. The figure are based on matched samples of individuals as a percentage of basic fees.

Median fee increases

		Median
FTSE 100	Non-executive chairman	5%
	Other non-executive directors	4%
FTSE 250	Non-executive chairman	5%
	Other non-executive directors	3%

Non-executive chairman

The chairman is responsible for the leadership of the board, ensuring effectiveness in all aspects of its role and setting its agenda. The chairman has ultimate responsibility for the board and so has a role distinct from that of the other non-executive directors. In some companies this may be close to a full-time role. Consequently there is typically a significant fee differential between the chairman and other non-executive directors.

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The following tables show the total non-executive chairman fees broken down by market capitalisation and turnover, inclusive of any committee fees and irrespective of time commitment. As would be expected, those chairing the largest companies are paid significantly more than those in companies in lower bands.

Chairman fees by market capitalisation

		Lower Quartile (£'000s)	Median (£'000s)	Upper Quartile (£'000s)
FTSE 100	>£10bn	407	500	648
	£5bn-£10bn	283	335	406
	<£5bn	258	297	323
	All FTSE 100	296	380	500
FTSE 250	>£2bn	200	250	300
	£1bn-£2bn	127	180	238
	<£1bn	58	150	180
	All FTSE 250	130	180	240

Chairman fees by turnover

		Lower Quartile (£'000s)	Median (£'000s)	Upper Quartile (£'000s)
FTSE 100	>£10bn	424	498	594
	£2.5bn-£10bn	284	309	350
	<£2.5bn	258	320	406
	All FTSE 100	296	380	500
FTSE 250	>£2.5bn	173	209	275
	£500m-£2.5bn	279	299	319
	<£500m	53	134	178
	All FTSE 250	130	180	240

Deputy chairman and senior independent director

Most companies now identify a senior independent director (SID) which generally attracts an additional fee. The SID is responsible for leading the non-executives in their review of the chairman's performance as well as being available to shareholders so as to gain a balanced understanding of the issues and concerns they may have.

As reported last year, we have seen the number of deputy chairman positions on boards reduce in recent years, with the SID in a number of organisations fulfilling duties which in the past may have been carried out by the deputy chairman.

Based on information disclosed, where a company has a deputy chairman the role is still more likely to attract a higher premium than the role of SID. If the two roles are combined and the deputy chairman is also the SID then it is standard practice that no additional fee is paid for the SID role.

There is insufficient data available to run separate quartile analysis for the FTSE 100 and FTSE 250. However, the table overleaf shows fees paid to the deputy chairman across the whole FTSE 350.

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Deputy chairman fees

		Lower Quartile (£'000s)	Median (£'000s)	Upper Quartile (£'000s)
FTSE 350	Deputy chairman	73	109	158

The table below shows the additional fees paid to SIDs for the FTSE 100 and FTSE 250. It should be noted this is in addition to the basic non-executive directors' fee.

Senior independent director additional fees

		Lower Quartile (£'000s)	Median (£'000s)	Upper Quartile (£'000s)
FTSE 100	Senior independent director	11	20	30
FTSE 250	Senior independent director	5	8	10

Other non-executive directors

The following tables show the fees for non-executive directors who are not classified as being a chairman, deputy chairman and/or senior independent director.

The figures are broken down by market capitalisation and turnover, and are inclusive of any committee fees and irrespective of time commitment.

Non-executive director fees by market capitalisation

		Lower Quartile (£'000s)	Median (£'000s)	Upper Quartile (£'000s)
FTSE 100	>£10bn	70	75	87
	£5bn-£10bn	57	61	70
	<£5bn	50	59	65
	All FTSE 100	60	68	77
FTSE 250	>£2bn	50	55	61
	£1bn-£2bn	40	48	52
	<£1bn	35	45	51
	All FTSE 250	40	50	55

Non-executive director fees by turnover

		Lower Quartile (£'000s)	Median (£'000s)	Upper Quartile (£'000s)
FTSE 100	>£10bn	70	75	85
	£2.5bn-£10bn	56	60	69
	<£2.5bn	56	65	73
	All FTSE 100	60	68	77
FTSE 250	>£2.5bn	50	54	60
	£500m-£2.5bn	47	51	56
	<£500m	35	45	52
	All FTSE 250	40	50	55

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Committee fee practice

Over recent years we have seen a continuing increase in the number of companies paying additional fees for membership and chairmanship of the main board committees. This is to compensate non-executives for the increasing responsibilities and requirements attributed to their roles.

Principally this is seen with the audit and remuneration committees. In the FTSE 100 the majority of companies disclose an additional audit committee chair fee and a remuneration committee chair fee.

Company size again has an influence over the level of additional fees. The risk committee still commands the highest additional fees for members although we have seen a significant increase in the level of other committee fees over the last couple of years, in particular the remuneration committee chair fee.

It should be noted that the nomination committee is often chaired by the company chairman, and in this situation the role is unlikely to attract additional committee fees.

The tables below show the additional fees disclosed for chairing the main committees in FTSE 100 and FTSE 250 companies.

FTSE 100 Committee chairmanship fee levels

	Lower Quartile (£'000s)	**Median** (£'000s)	**Upper Quartile** (£'000s)
Remuneration	15	20	30
Audit	15	21	30
Nomination	10	15	20
Risk Committee	20	30	49
Other	11	20	30

FTSE 250 Committee chairmanship fee levels

	Lower Quartile (£'000s)	**Median** (£'000s)	**Upper Quartile** (£'000s)
Remuneration	8	10	12
Audit	8	10	15
Nomination	6	10	10
Risk Committee	10	10	18
Other	7	10	15

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The tables below show the additional fees disclosed for being a member in the main committees in FTSE 100 and FTSE 250 companies.

Nearly half the FTSE 100 and around a quarter of FTSE 250 companies pay additional fees for membership to the main board committees.

FTSE 100 Committee membership fee levels

	Lower Quartile (£'000s)	**Median** (£'000s)	**Upper Quartile** (£'000s)
Remuneration	7	12	16
Audit	8	13	20
Nomination	5	8	10
Risk Committee	10	13	29
Other	7	12	19

FTSE 250 Committee membership fee levels

	Lower Quartile (£'000s)	**Median** (£'000s)	**Upper Quartile** (£'000s)
Remuneration	4	5	7
Audit	3	5	7
Nomination	3	4	6
Risk Committee	5	7	11
Other	5	7	12

Time commitment

There is insufficient disclosure in companies' annual reports with respect to the time commitment required of a chairman or non-executive director role to perform any robust analysis. However, prior experience tells us that a chairman role typically demands around two full days a week. This will vary depending on the size of the company.

Other non-executive director roles will require less time commitment and this is reflected in the reduced fees. However, due to increased scrutiny of boards and directors, the time commitment required by a non- executive director has increased in recent years.

The number of board meetings will vary depending on company size and complexity. Most non-executive directors will be chairs or members of at least one committee as well, and these meetings will be in addition to the board meetings.

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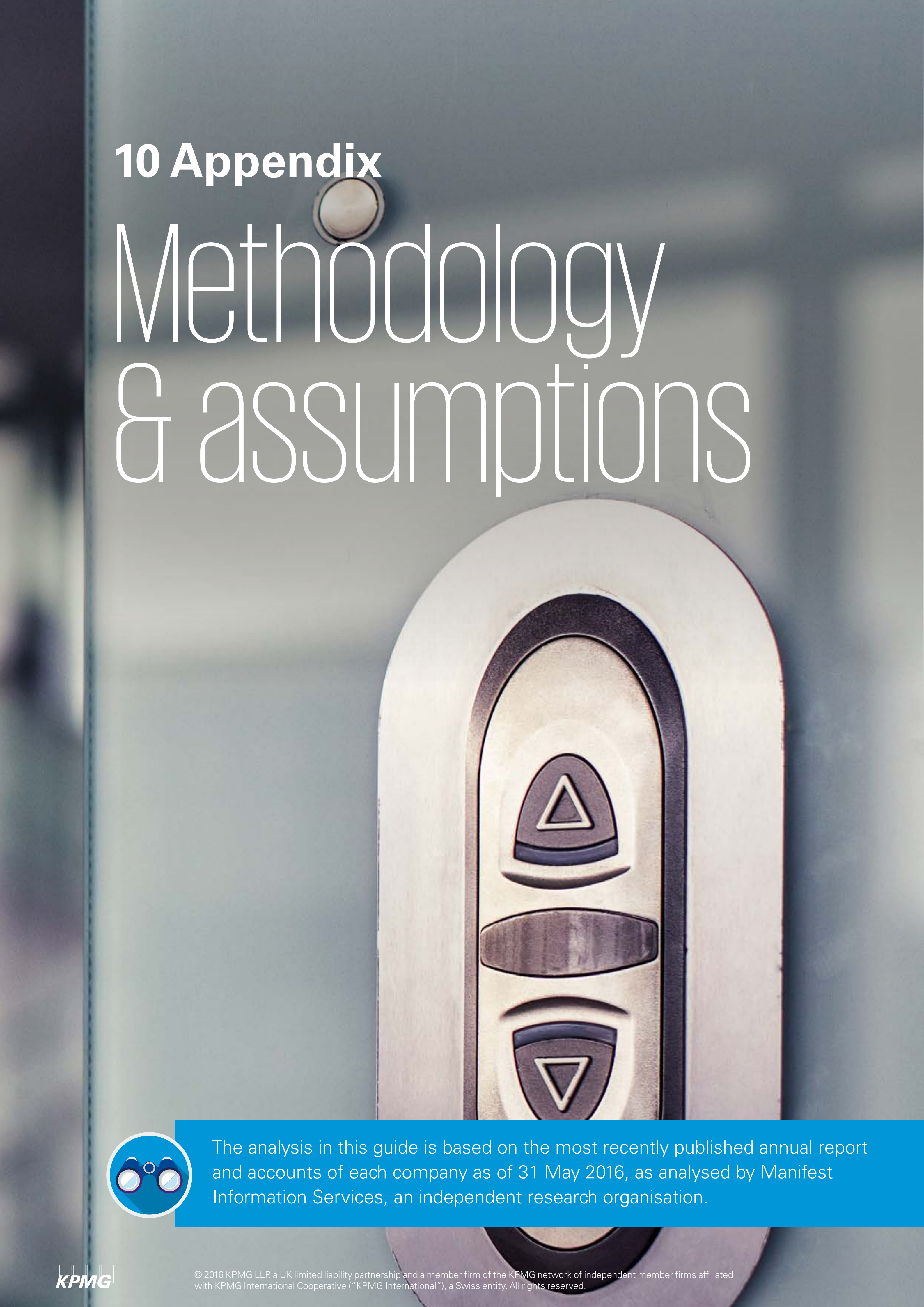

10 Appendix

Methodology & assumptions

The analysis in this guide is based on the most recently published annual report and accounts of each company as of 31 May 2016, as analysed by Manifest Information Services, an independent research organisation.

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Data sources

Unless otherwise stated, all graphs and tables have been created by KPMG, from data provided by Manifest Information Services. The data provided by Manifest Information Services has been further analysed by KPMG, using the methodology outlined below. In our research we have also drawn on analysis completed by IVIS (Institutional Voting Information Service).

Data sample

FTSE constituents and market capitalisation figures are as at 31st May 2016 and turnover figures used for the analysis are as at the relevant reporting date for each company. All FTSE 350 investment trusts are excluded.

The positions included in the data sample are: chief executive, finance director, other executive directors and non-executive directors. Other executive director includes any main board position other than the chief executive, finance director, executive chairman and the non-executive directors. This typically includes operational directors, functional directors, chief operating officers, and executive deputy chairmen.

To enable the remuneration components of each position to be analysed they have been split in to the following categories:

Basic salary
Annual salary received over a 12-month period as shown in the accounts (not necessarily set at annual review)

Total bonus
Actual annual bonus paid plus any deferred portion of the annual bonus

Total cash
The sum of basic salary, benefits and total bonus

Pensions
The value of all pension related benefits including payments in lieu of retirement benefits and all retirement benefits in year from participating in pension schemes

Total earnings
The sum of total cash, the value of any share based awards vested during the year, the value of any share options vested during the year and the cash value of pension arrangements. Final figure may also include some miscellaneous payments such as special payments for pensions, one-off bonuses for particular projects and profit share

LTIP awards

LTIP awards are considered for the purpose of the guide to be awards where the vesting/ performance period is longer than one year and have been categorised in the guide as performance share plans – a type of long term incentive in which participants are allocated free shares or nil cost options or, more commonly, rights to shares, the vesting of which is subject to the satisfaction of performance targets over a period of more than one year.

Median and quartile points

For the purposes of the report, median information has been provided where there are four data points or more. Inter-quartile ranges have been provided where there are nine or more data points.

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