



Guide to Directors' Remuneration 2019

KPMG Board Leadership Centre

December 2019

A wide-ranging overview of Executive and Non-Executive Directors' remuneration trends in FTSE 350 companies



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 Directors
Salary increase	2%	3%	3%
Basic salary (£'000s)	850	555	517
Annual bonus			
Maximum potential bonus (percentage of salary)	190%	180%	175%
Total bonus paid (percentage of salary)	122%	115%	134%
Long Term Incentive			
Maximum award (percentage of salary) ¹	250%	250%	250%
Actual pay out (percentage of salary)	193%	143%	176%
Pension			
Contribution limits for new hires (percentage of salary)		15%	
Shareholding Requirements			
Minimum shareholding requirement (percentage of salary)	300%	200%	200%
Total earnings² (£'000s)	3,587	2,125	2,172

Notes: (1) Face value of award. (2) Includes benefits, total bonus and cash value of share awards vested in the year.

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 Directors
Salary increase	3%	3%	3%
Basic salary (£'000s)	551	364	359
Annual bonus			
Maximum potential bonus (percentage of salary)	150%	150%	150%
Total bonus paid (percentage of salary)	99%	91%	79%
Long Term Incentive			
Maximum award (percentage of salary) ¹	200%	200%	175%
Actual pay out (percentage of salary)	136%	129%	91%
Pension			
Contribution limits for new hires (percentage of salary)		15%	
Shareholding Requirements			
Minimum shareholding requirement (percentage of salary)	200%	200%	200%
Total earnings² (£'000s)	1,728	1,046	891

Notes: (1) Face value of award. (2) Includes benefits, total bonus and cash value of share awards vested in the year.

Highlights



Regulatory

The 2020 AGM season will be critical as many companies seek approval for a new remuneration policy and all UK quoted companies will need to comply with new reporting obligations.



Investors

There has been an increase in the level of significant votes against remuneration reports among FTSE 250 companies but a reduction in the FTSE 100.



Total earnings

For a CEO in the FTSE 100, the median level of total earnings in 2019 was £3.6m (down from £3.9m in 2018). The median level of total earnings for a CEO in the FTSE 250 was £1.7m (similar to 2018).



Long term incentives

The vast majority of companies across the FTSE 350 operate their LTIP over a period of five years or more, reflecting the requirements of the UK Corporate Governance code.



Pensions

Pensions were the big focus area in 2019 and will be again in 2020. The median pension contribution limit for new directors in the FTSE 350 is 15% of salary.



Shareholding requirements

In addition to having an 'in-service' minimum shareholding requirement, FTSE 350 companies are strengthening their post-employment shareholding requirements.



Diversity

Whilst progress is being made on gender diversity in the boardroom, of the roles occupied by women, only 8% are Executive Director positions.





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01. 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.

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 categorised the data obtained from the FTSE 350 into groupings by market capitalisation to increase the relevance to you.

We recommend that this guide is used in conjunction with other information available 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 July 2019.

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

02. The remuneration landscape



Introduction

The 2019 reporting season, as summarised in this report, was in many respects a preparatory year for many FTSE 350 companies as they felt their way through the amended pay reporting and disclosure rules. In contrast, the reporting of pay in 2020 will be critical as many companies seek approval for a new remuneration policy and all UK quoted companies will need to comply with new disclosure and reporting obligations around executive pay.

In this section of our survey we will firstly provide an overview of the position in relation to votes on the annual Remuneration Reports and Remuneration Policy. We will then briefly summarise the key headline changes made to the UK corporate governance landscape over the last year and the additional reporting and disclosure obligations that UK FTSE 350 companies have around executive pay. We will also take a look at and summarise the major changes to institutional investor guidelines on remuneration that were announced in 2019 and highlight the key issues remuneration committees should have on their agenda as we close out 2019 and head into the new reporting season in early spring 2020.

The investor perspective

Following the introduction of the public register of significant votes against shareholder resolutions, commentators have watched with interest the position in relation to votes on the annual Remuneration Reports and Remuneration Policy. The charts below reflect on the changes in the shareholder voting position between 2018 and 2019. In this context, a significant vote against is defined as more than 20% of the votes cast against a resolution.

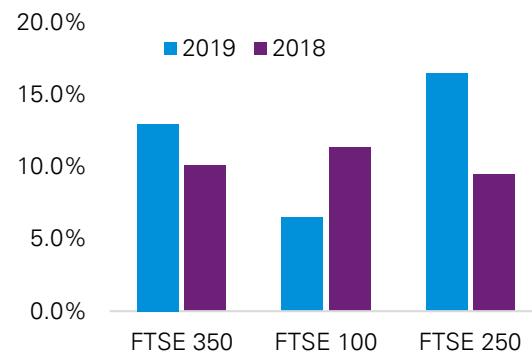
Across the whole of the FTSE 350, the percentage of companies with a significant vote against Remuneration Reports shows an increase of 3% although further analysis shows a 5% decrease in the FTSE 100 and a 7% increase in the FTSE 250.

Due to the typical three-year cyclical nature of Remuneration Policy votes, a year on year comparison may not provide an entirely accurate picture. During 2019, 59 companies in the FTSE 350 put their policy to a vote compared with 79 in 2018.

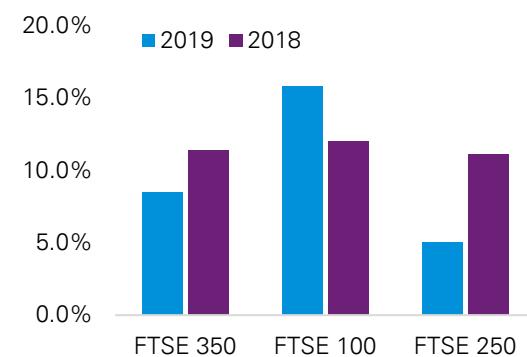
It can be observed from the chart below that while there has been a slight increase in the number of FTSE 100 companies receiving a significant vote against their Remuneration Policy, there has been a notable decrease across FTSE 250.

Looking forward to the 2020 AGM season, it will be interesting to see whether the position illustrated below will be reflected in the greater sample we expect to see next year.

Percentage of companies with significant vote against annual Remuneration Report



Percentage of companies with significant vote against Remuneration Policy





Changes to the UK Corporate Governance regime

Major changes to the UK Corporate Governance regime were introduced in 2018 by amendments to the Companies Act 2006 ('CA 2006') and the Large and Medium-sized Companies and Groups (Account and Reports) Regulations 2008 ('2008 Regs'), and to the UK Corporate Governance Code ('Code'). These changes became effective in respect of financial years starting on or after 1 January 2019.

The changes were introduced to help restore trust in UK business and improve the level of transparency and accountability of directors by means of additional reporting obligations; in particular, in relation to executive pay.

The key changes relevant to UK FTSE 350 companies with a premium listing are summarised below and should already have been factored into discussions and decisions around pay in 2019. Many companies voluntarily sought to comply (in whole or part) with these changes when reporting and disclosing pay arrangements during the 2019 reporting season; however, for all companies within scope, compliance and disclosure of the new obligations will be mandatory when reporting on pay during the 2020 reporting season.

Additional reporting and disclosure under the amended CA 2006 and 2008 Regs

The following key amendments to the CA 2006 and 2008 Regs were introduced under the Companies (Miscellaneous Reporting) Regulations 2018.

Reporting and Disclosure	Scope	Requirements
Statement in Strategic Report explaining the matters considered by the directors under Section 172(1) CA 2006	<p>All UK incorporated companies that satisfy at least 2 of the following three criteria:</p> <ul style="list-style-type: none"> — Turnover > £36m — Balance sheet > £18m — > 250 employees 	A statement describing how the directors have had regard to the matters set out in s172(1) CA 2006 (duty to promote the success of the company), including the interests of employees and the likely consequences of any decision in the long-term.
Statement of engagement with employees in Directors' (or Strategic) Report	All UK incorporated companies with an average number of > 250 employees	A statement describing how the company has engaged with, and taken account of, UK employees interests and matters of concern to them throughout the relevant year; and encourage their involvement in the company's performance through and employees' share scheme or by some other means.
Pay ratio reporting in DRR	UK quoted companies with >250 UK employees on average	Inclusion of a pay ratio table showing ratio of CEO pay to that of the UK employee whose pay and benefits are on the 25 th , 50 th and 75 th percentile of UK employees, together with narrative explaining the methodology used to calculate the ratio, any changes to the ratio and whether the company believes the median pay ratio is consistent with pay, reward and progression policies for the company's UK employees as a whole.
Statement explaining the exercise of discretions in the RemCo Chair's annual statement	UK quoted companies	<p>Summary of any discretions exercised in the award and determination of directors' remuneration, including (but not limited to) decisions around:</p> <ol style="list-style-type: none"> 1) grants; 2) quantum; 3) determination and assessment of performance conditions; 4) pro-rating and scale-back of awards (e.g. inc. decisions to override formulaic outcomes); 5) good leaver treatment; 6) holding periods; and 7) malus and clawback.
Share Price Appreciation and the single total figure table	UK quoted companies	<p>The Remuneration Report must disclose the amount of an award attributable to share price appreciation and whether any discretion has been exercised by the Remuneration Committee to take account of any increase or decrease in the share price.</p> <p>In respect of long-term incentives, the Remuneration Policy must illustrate the maximum remuneration payable to or receivable by a director assuming share price growth of 50% over the relevant performance period.</p>

The Shareholder Rights

Directive II: 2019 Regs

Additional amendments to the reporting and disclosure of executive pay were introduced with effect from 10 June 2019 under the Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019 ('2019 Regs'). These changes effectively act as a 'sweep up' and capture amendments made to the Shareholder Rights Directive, which were not already caught under UK domestic legislation. The changes are unlikely to materially impact the disclosure and reporting of executive pay by UK quoted companies. However, there are some relatively minor changes that will need to be considered and taken into account for all new Remuneration Policies and future Remuneration Reports. The key changes for UK FTSE 350 companies, are summarised below.

Reporting and Disclosure	Scope	Requirements
Additional reporting and disclosure in the Remuneration Report and Policy	Changes applying to Remuneration Reports in respect of financial years starting on or after 10 June 2019 and Remuneration Policies approved on or after 10 June 2019	<p>Companies will need to report on the relative change in remuneration for all directors against employees generally (not just the CEO as is currently the case).</p> <p>The single total figure table must include two additional columns showing sub-totals for fixed and variable pay.</p> <p>Any adjustments to the exercise price of options (e.g. following a variation of share capital etc.) must be reported and disclosed.</p> <p>Additional information and disclosure required on how the Remuneration Committee has determined and implemented the Remuneration Policy.</p> <p>Companies must fully disclose deferral, vesting and holding periods applying to variable and share-based remuneration.</p> <p>Any new Remuneration Policy must clearly disclose and explain any changes from the old Policy.</p> <p>The term and length of directors' service contracts must be clearly set out.</p> <p>The remuneration of any person acting as CEO or deputy CEO who is not on the Board of Directors must be disclosed.</p> <p>The Company must disclose the results of any vote on policy on its website.</p> <p>If a Remuneration Policy vote is lost, a new Policy must be put forward for approval at the next general meeting.</p> <p>Separate shareholder approval for payments to leavers outside of policy are no longer permitted. Instead approval for a new amended Policy is required for any payment not within policy.</p>

Changes to the Code

Amendments to the Code apply to financial years starting on or after 1 January 2019. The key changes to the Code are summarised below.

New Principle and Provisions	Requirements
Engaging with the workforce	<p>To help improve engagement with the workforce, companies should adopt one or a combination of three engagement methods, as follows:</p> <ul style="list-style-type: none"> — appoint a director from the workforce; — establish a formal workforce advisory panel; and/or — designate a non-executive director to liaise, engage and communicate with employees <p>Companies may put in place alternative arrangements provided they also explain why they believe the alternative arrangements are considered appropriate.</p>
Remit of the Remuneration Committee	<p>RemCo's are now responsible for setting the level and structure of remuneration for senior management below main Board level and should also take account of below board Remuneration Policies when considering and setting Board pay.</p>
The use of discretions	<p>Directors should exercise independent judgement and discretion when determining variable pay outcomes and have regard to broader matters as well as set performance criteria. Importantly, variable pay schemes should enable the Remuneration Committee to exercise its discretion and override formulaic outcomes.</p>
Scheme design, vesting and holding periods	<p>Pay policies should support and deliver against company strategy, promote long-term and sustainable success and align to company purpose and values.</p> <p>Share awards should be subject to combined vesting and holding periods of no less than 5 years and should include post termination shareholding requirements to both vested and unvested shares.</p>
Payments for loss of office	<p>Payments for loss of office should not reward for poor performance and companies will be expected to mitigate effectively against loss.</p>
Pension contributions	<p>Pension contributions for directors should be aligned to average workforce contributions.</p>



Investment Association Guidelines

On 1 November 2019, the Investment Association (IA) wrote to the Remuneration Committee chairs of FTSE 350 companies to outline the key changes to the IA's Principles of Remuneration for 2020 and to highlight six key areas of focus for the IA and its members for the 2020 AGM season.

A summary of the six key changes and focus areas for 2020 is highlighted below. Companies are advised to consider and review these changes and focus areas, together with the new disclosure and reporting requirements under the CA 2006 and the Code, when going to shareholders and seeking approval for a new Remuneration Policy in 2020.



Alternative remuneration structures

The IA state that "members are increasingly of the view that the traditional Long Term Incentive Schemes are not working as effectively as they could for all companies and can sometimes drive outcomes which can cause concerns for shareholders such as increasing grant levels or volatile and significant vesting outcomes."

For those companies wishing to look at alternative remuneration structures the letter states that IA members will consider such arrangements provided that they are "appropriately aligned with the implementation of the company's strategy".

Approach on Pensions



Remuneration Committees must set out a credible action plan to reduce the pension contributions of incumbent directors to the majority of the workforce level by the end of 2022.



Pay for Performance

To help explain the link between pay and performance, companies should clearly describe both financial and non-financial targets and outcomes separately.



Discretion on vesting outcomes

The revised guidelines suggest that discretions are introduced into incentive schemes that will allow Remuneration Committees to override and reduce potential pay-outs that would otherwise exceed a specific maximum monetary limit. Remuneration Committees are asked to consider "and decide on the level at which such a discretion would be suitable . . . and how it would be implemented on an individual basis."



Shareholding requirements and post-employment shareholding requirements

All new Policy approvals in 2020 must include a post-employment shareholding requirement. A holding period of at least two years post-termination of employment is expected.



Levels of Remuneration

Companies will be required to adequately justify the level of remuneration paid to directors and Remuneration Committees will be expected to show restraint in relation to overall quantum.



Preparing for the 2020 AGM season

As companies prepare for the forthcoming AGM season we have summarised below some of the key headline issues that Remuneration Committees should have on their radar.



Transparency and accountability

The amendments to the CA 2006 and the Code were geared towards increasing the level of disclosure and reporting of executive pay, and ensuring that pay practices were transparent and directors accountable for policy and pay-out.

Going forward much greater focus will be placed on the rationale and justification of pay practices and compliance with policies, with the likelihood of a greater risk of censure for non-compliance.



Discretions

In accordance with the revised reporting and disclosure obligations under the CA 2006 and the Code, there will be greater focus and scrutiny on the use (and possible non-use) of discretions; in particular, to override formulaic outcomes around variable pay. Remuneration Committees should, therefore, review the rules of variable pay schemes and performance conditions to make sure that they include sufficient and enforceable powers to adjust pay outcomes within Policy. For example, can the value of payouts be limited or scaled-back where the value of awards on vesting is not commensurate with performance.



Pensions

This was the big focus area for 2019 and we expect it to take centre stage again in 2020.

In accordance with the revised IA guidelines, companies should now be looking to align all pension payments and allowances for directors to the levels paid to the average workforce. In respect of directors with contractually enforceable rights, the Company should explain what it is doing to bring these payments into line.



Malus and Clawback

Malus and Clawback provisions should be reviewed to make sure that they remain enforceable and are wide enough to take account of other specific and exceptional circumstances, including (but not limited to) losses arising as a result of reputational issues and corporate failures.



Post-employment shareholding requirements

Consider and agree the percentage holding requirement and post-employment holding periods and ensure that arrangements are in place for holdings to be monitored (e.g. consider executives holding vested shares under a nominee arrangement).

03. Market data overview



Total earnings

The following tables show the median basic salary, total cash and total earnings in the year for FTSE 100 and FTSE 250 companies (2018 data in parentheses).

Median total earnings for Executive Directors has either fallen or are flat when compared to last year.

Chief Executive	Basic Salary (£'000)	Total cash (£'000)	Total Earnings (£'000)
FTSE 100	850 (905)	1,643 (1,851)	3,587 (3,897)
FTSE 250	551 (560)	1,035 (1,037)	1,728 (1,722)

Finance Director	Basic Salary (£'000)	Total cash (£'000)	Total Earnings (£'000)
FTSE 100	555 (562)	1,046 (1,136)	2,125 (2,312)
FTSE 250	364 (363)	660 (675)	1,046 (1,034)

Other Executive Directors	Basic Salary (£'000)	Total cash (£'000)	Total Earnings (£'000)
FTSE 100	517 (568)	913 (1,187)	2,172 (2,497)
FTSE 250	359 (360)	539 (720)	891 (1,189)

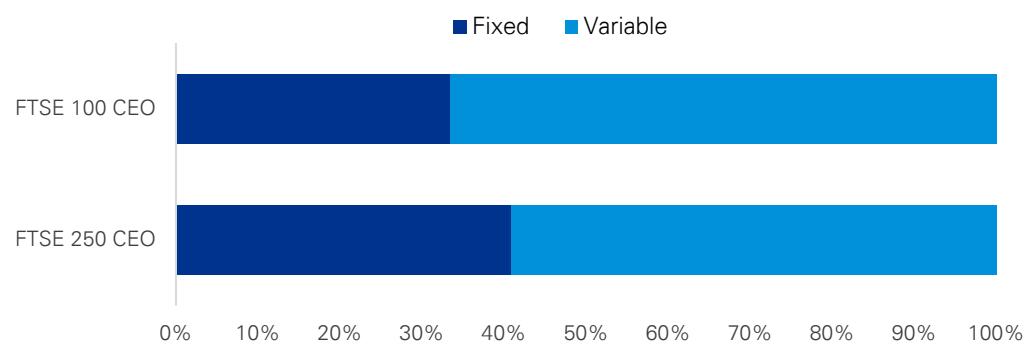
As variable pay makes up a significant proportion of total earnings, bonus pay outs and vesting outcomes can distort year on year comparisons and care should be taken when using this benchmark information.

Remuneration mix

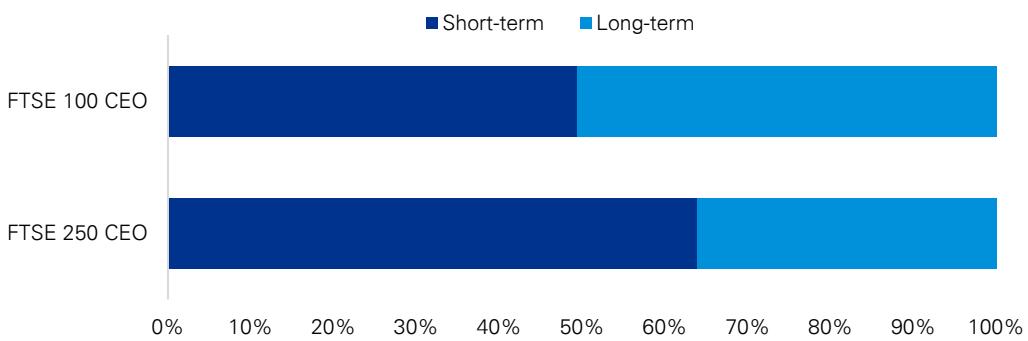
The charts below show the mix between fixed and variable remuneration as well as the short term: long term remuneration mix for Chief Executives. These are based on median total earnings received during the year.

The mix of 'fixed to variable' and 'short to long term' remuneration for Chief Executives in the FTSE 350 this year is largely the same as seen in 2018.

Total earnings mix



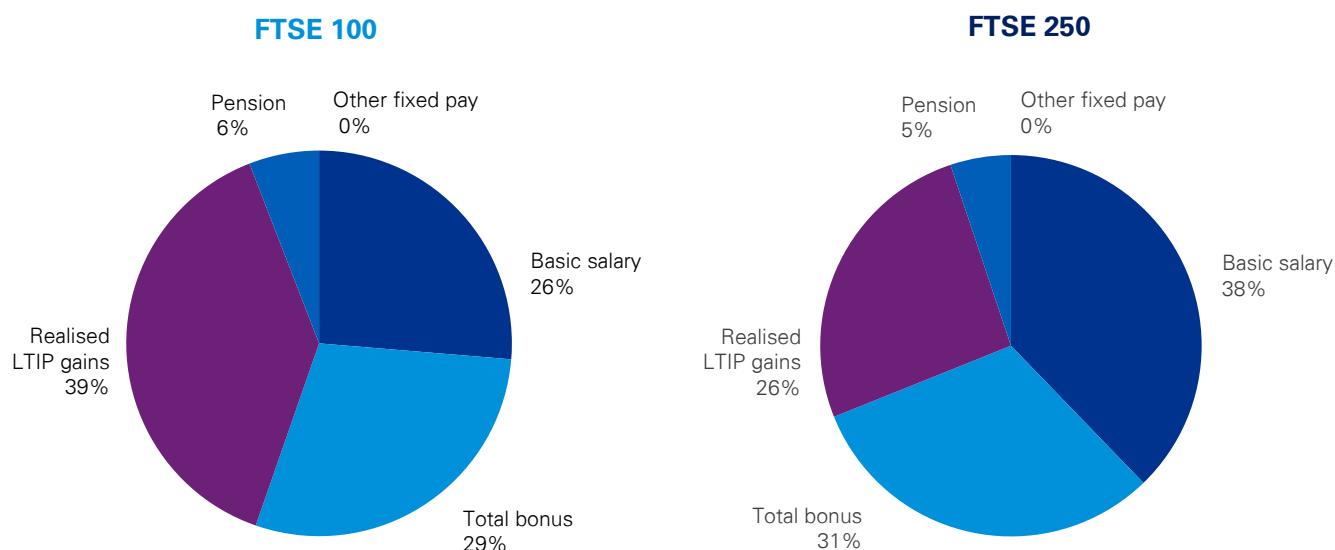
Remuneration mix



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

When compared to last year, LTIP vestings make up a greater proportion of a FTSE 250 Chief Executive remuneration. In the FTSE 100, there has been a slight increase in the proportion of total remuneration represented by basic salary.

Chief Executive Remuneration mix



4. Salary



Basic salary increases

The table below shows the median basic salary increase in the FTSE 100 and FTSE 250 for the Chief Executive, Finance Director and Other Executive Director (for both 2019 and the previous year).

Companies remain cautious in their approach to basic salary increases for incumbents and continue to take into account the level of pay increases across the broader employee population.

Chief Executive	Chief Executive		Finance Director		Other Executive Director	
	2019	2018	2019	2018	2019	2018
FTSE 100	2%	2%	3%	3%	3%	3%
FTSE 250	3%	2%	3%	2%	3%	3%

Salary differentials by reference to role

The table below shows the 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.

Salary differentials by reference to role

	Market capitalisation	Lower Quartile (£'000s)	Median (£'000s)	Upper Quartile (£'000s)
FTSE 100	Finance Director	59%	65%	70%
	Other Executive Director	56%	66%	80%
FTSE 250	Finance Director	59%	66%	72%
	Other Executive Director	57%	67%	74%



Salary position and pay comparator groups

The assumption that the size of a company is highly correlated with basic salary levels for executive directors is supported by the data below, which shows basic salary levels by market capitalisation.

Many companies use market capitalisation as a key criteria 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 (likely higher) than its revised peer group.

The tables below show basic salary levels by market capitalisation.

Basic salary by market capitalisation

Chief Executive	Market Capitalisation	Lower Quartile (£'000)	Median (£'000)	Upper Quartile (£'000)
FTSE 100	>£15bn	1,060	1,218	1,296
	£5bn - £15bn	653	810	890
	<£5bn	554	698	767
	All FTSE 100	696	850	1,073
FTSE 250	>£2bn	550	631	758
	£1bn - £2bn	493	550	663
	<£1bn	422	499	568
	All FTSE 250	469	551	664
FTSE 350	All FTSE 350	506	631	828



Finance Director	Market Capitalisation	Lower Quartile (£'000)	Median (£'000)	Upper Quartile (£'000)
FTSE 100	>£15bn	698	748	800
	£5bn - £15bn	455	515	579
	<£5bn	374	445	476
	All FTSE 100	460	555	711
FTSE 250	>£2bn	375	409	448
	£1bn - £2bn	315	354	418
	<£1bn	304	338	365
	All FTSE 250	323	364	425
FTSE 350	All FTSE 350	347	418	514

Other Executive Director	Market Capitalisation	Lower Quartile (£'000)	Median (£'000)	Upper Quartile (£'000)
FTSE 100	>£15bn	716	806	867
	£5bn - £15bn	443	511	628
	<£5bn	355	384	454
	All FTSE 100	416	517	721
FTSE 250	>£2bn	361	429	481
	£1bn - £2bn	273	327	360
	<£1bn	262	294	361
	All FTSE 250	302	359	429
FTSE 350	All FTSE 350	354	429	559

05. Annual bonus plans



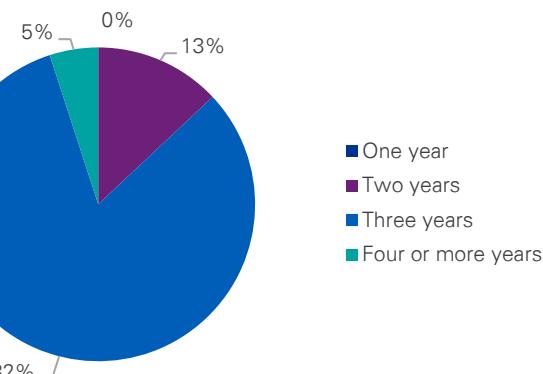
Deferral periods

A deferred annual bonus plan involves the compulsory or voluntary deferral of some or all of an annual bonus into company shares, which the participant is restricted from disposing of for a period of time.

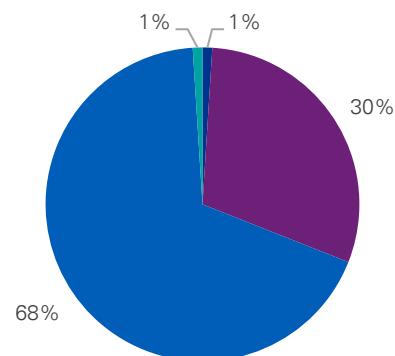
The chart below shows the length of deferral period used by FTSE 100 and FTSE 250 companies which have disclosed this information. The most common deferral period remains 3 years.

The typical proportion of a bonus which is deferred into shares in the FTSE 350 is 50%.

FTSE 100



FTSE 250

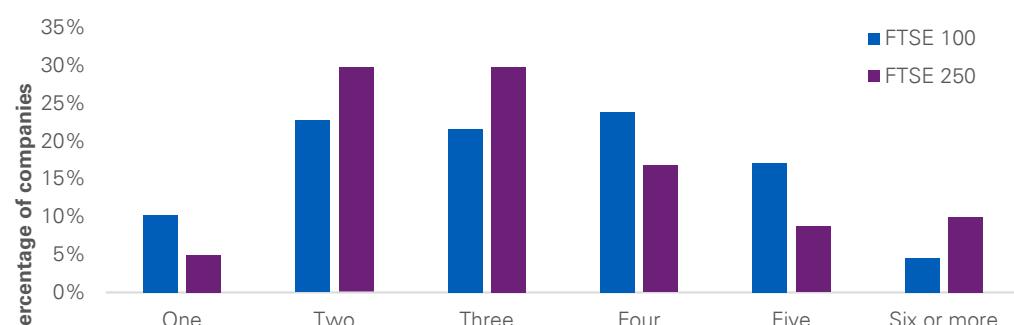


Performance measures

The chart below shows the number of performance conditions applied at FTSE 100 and FTSE 250 companies

The most common number of performance conditions used in annual bonus plans across the FTSE 350 are two or three.

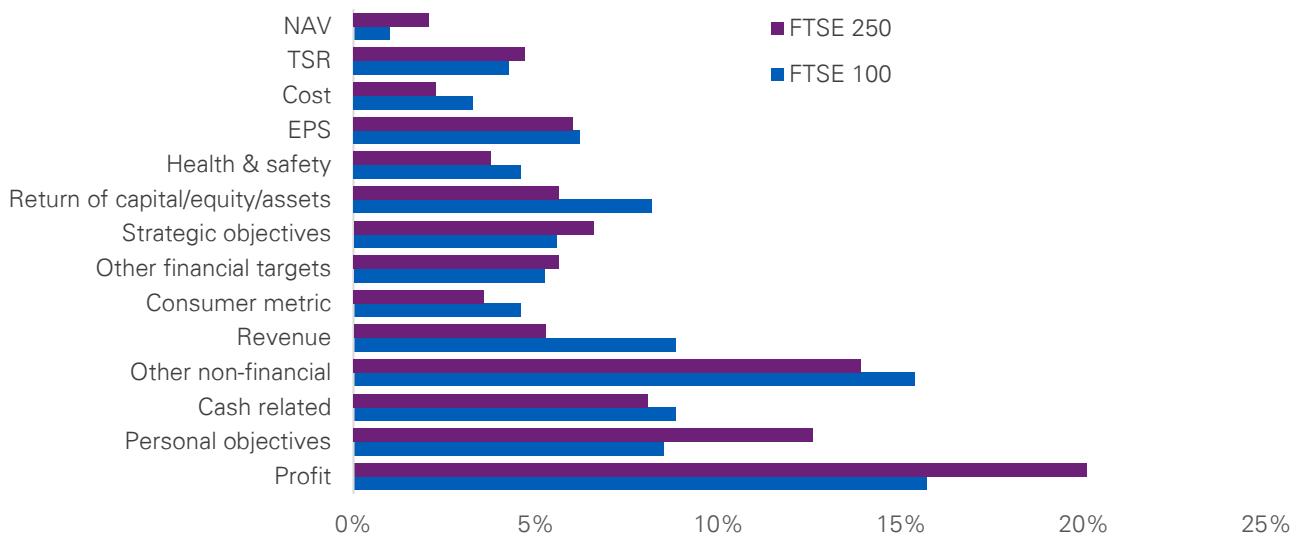
Number of measures in annual bonus plan



Performance measures

The chart below shows the 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 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 strategic targets, a customer target, an employee metric or an HSE (Health, safety and environment) target.

Performance measures in annual bonus plans



The table below summarises, where disclosed, the pay-out levels for 'threshold' and 'target' performance for annual bonuses across the FTSE 350. From the table below we can see that, of those companies that provide sufficient data, 'on target' and 'threshold' performance typically delivers around 50% and 10% of the maximum opportunity respectively. The figures in the table are for the Chief Executive role (but are typical for all Executive Director positions).

Annual bonus 'threshold' and 'on-target' awards for CEO - % of Maximum Opportunity

	On-Target award		Threshold award	
	FTSE 100	FTSE 250	FTSE 100	FTSE 250
Upper Quartile	50%	60%	25%	25%
Median	50%	50%	10%	13%
Lower Quartile	50%	50%	0%	0%

Bonus levels

The tables below provide an overview of the bonus opportunity and actual bonus provided to Chief Executives, Finance Directors and Other Executive Directors in FTSE 100 and FTSE 250 companies

Chief Executive	FTSE 100			FTSE 250		
	Lower Quartile (£'000)	Median (£'000)	Upper Quartile (£'000)	Lower Quartile (£'000)	Median (£'000)	Upper Quartile (£'000)
Maximum bonus opportunity (% of salary)	150%	190%	200%	125%	150%	175%
Total bonus (% of salary)	87%	122%	148%	73%	99%	132%
Total bonus (% of maximum bonus)	51%	76%	84%	49%	69%	84%
Total bonus (£'000)	643	1,061	1,580	386	525	797

Finance Director	FTSE 100			FTSE 250		
	Lower Quartile (£'000)	Median (£'000)	Upper Quartile (£'000)	Lower Quartile (£'000)	Median (£'000)	Upper Quartile (£'000)
Maximum bonus opportunity (% of salary)	150%	180%	205%	125%	150%	150%
Total bonus (% of salary)	89%	115%	146%	60%	91%	113%
Total bonus (% of maximum bonus)	54%	65%	83%	40%	67%	80%
Total bonus (£'000)	407	646	909	200	315	446

Other Executive Director	FTSE 100			FTSE 250		
	Lower Quartile (£'000)	Median (£'000)	Upper Quartile (£'000)	Lower Quartile (£'000)	Median (£'000)	Upper Quartile (£'000)
Maximum bonus opportunity (% of salary)	150%	175%	200%	125%	150%	150%
Total bonus (% of salary)	93%	134%	170%	58%	79%	103%
Total bonus (% of maximum bonus)	53%	69%	86%	35%	55%	73%
Total bonus (£'000)	470	683	971	174	250	423

06. Long term incentive plan



Structure

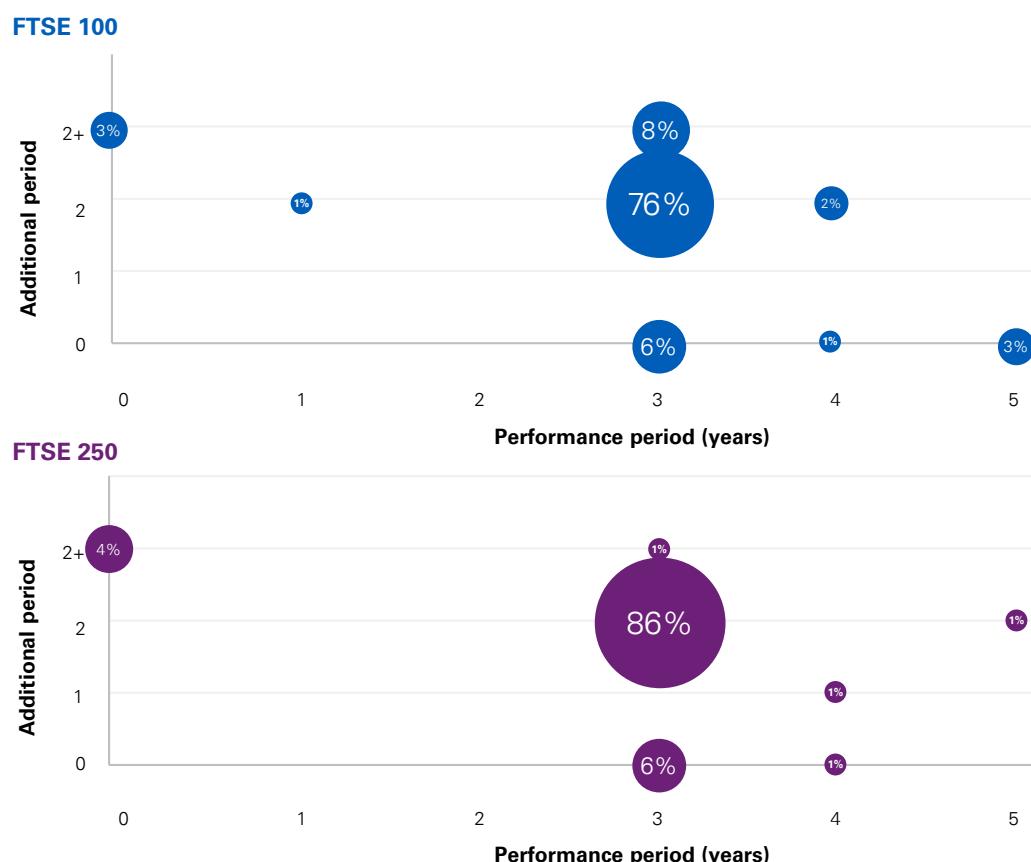
Performance Share Plans (PSPs) remain the most prevalent form of LTIP operated by FTSE 350 companies and we expect this to continue for the foreseeable future. There is however a growing debate that traditional LTIP structures are not working as effectively as they could. The focus of this section of our report remains on PSPs but there is no doubt that alternative LTIP structures including Restricted Share Plans (RSPs), Value Creation Plans and so-called 'performance on grant' schemes is an area of emerging interest which we will return to in the future.

Time horizons

A total vesting and holding period of five years (or more) is now a requirement of the UK Corporate Governance Code. This year we have continued to see companies in the FTSE 350 introduce or strengthen their post-vesting holding periods.

The chart below shows the time period over which companies in the FTSE 350 operate their LTIPs. For these purposes, we have included both PSPs, RSPs and performance on grant schemes. For these purposes, the 'Performance Period' is the period over which performance is measured. The 'Additional Period' reflects the aggregate of any further holding period and/or any additional service period during which awards vest. Please also note that for RSPs we have reflected a performance period of '0' years (on the basis that any performance measure is an underpin only).

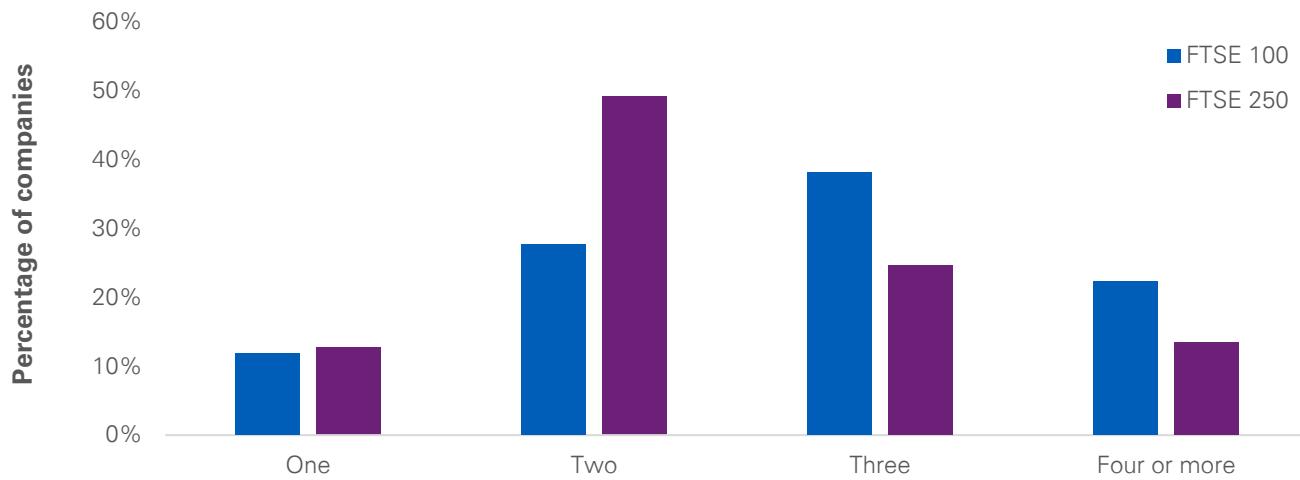
A performance period of three years and a holding period of two years is the most prevalent combination for LTIPs operated by both FTSE 100 and FTSE 250 companies.



Performance share plans

The following chart shows the number of measures that are currently in use. Although there has been increasing focus on simplicity from shareholders, the use of multiple performance measures remained at similar level to last year.

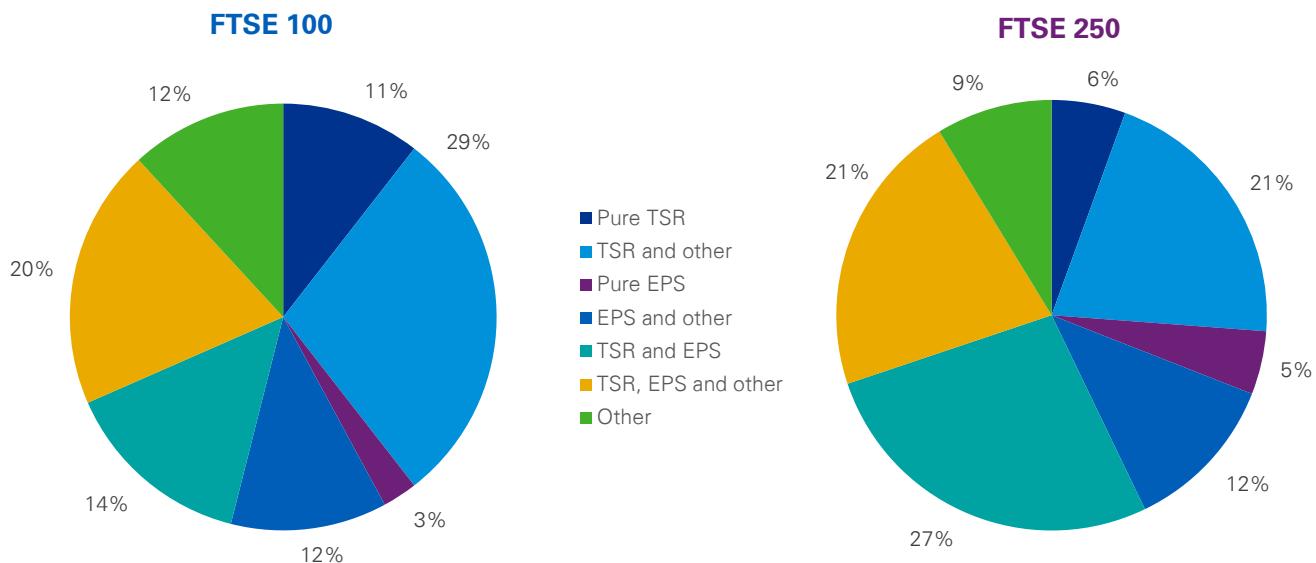
Number of measures in performance share plans



The following charts show the measures that are currently in use.

The use of some form of Total Shareholder Return (TSR) measure, either as a single measure or in conjunction with another metric, continues to be the most popular measure across the FTSE 350.

Performance measures



LTIP opportunity

Chief Executive	FTSE 100			FTSE 250		
	Lower Quartile (£'000)	Median (£'000)	Upper Quartile (£'000)	Lower Quartile (£'000)	Median (£'000)	Upper Quartile (£'000)
Maximum award (% of salary)	200%	250%	350%	150%	200%	213%
Actual award (% of salary)	200%	250%	353%	150%	196%	203%
Actual award (£'000)	1,430	2,198	3,390	786	1,035	1,402
Actual gains (% of salary)	113%	193%	309%	82%	136%	222%

Finance Director	FTSE 100			FTSE 250		
	Lower Quartile (£'000)	Median (£'000)	Upper Quartile (£'000)	Lower Quartile (£'000)	Median (£'000)	Upper Quartile (£'000)
Maximum award (% of salary)	200%	250%	324%	150%	200%	200%
Actual award (% of salary)	183%	224%	300%	129%	161%	202%
Actual award (£'000)	865	1,354	2,111	457	618	846
Actual gains (% of salary)	94%	143%	258%	69%	129%	201%

Other Executive Directors	FTSE 100			FTSE 250		
	Lower Quartile (£'000)	Median (£'000)	Upper Quartile (£'000)	Lower Quartile (£'000)	Median (£'000)	Upper Quartile (£'000)
Maximum award (% of salary)	200%	250%	300%	150%	175%	200%
Actual award (% of salary)	195%	224%	300%	123%	156%	200%
Actual award (£'000)	817	1,211	1,980	315	545	782
Actual gains (% of salary)	95%	176%	264%	57%	91%	131%



07. Pensions



A year of change

Executive pensions were firmly in the spotlight in 2019. Whilst pensions have been an area of focus for sometime, the tightening of investor guidelines following the publication of the revised Code, has resulted in a number of companies announcing a drop in rates for new hires and, notably, for incumbents.

Looking forward, we expect to see this issue take centre stage once again in the 2020 AGM season, particularly given recent comments from the Investment Association on this topic.

Contribution limits for new hires

	FTSE 100			FTSE 250		
	Lower Quartile (%)	Median (%)	Upper Quartile (%)	Lower Quartile (%)	Median (%)	Upper Quartile (%)
DC pension maximum	12	15	25	11.25	15	20
Pension supplement maximum	12	15	25	12	15	20

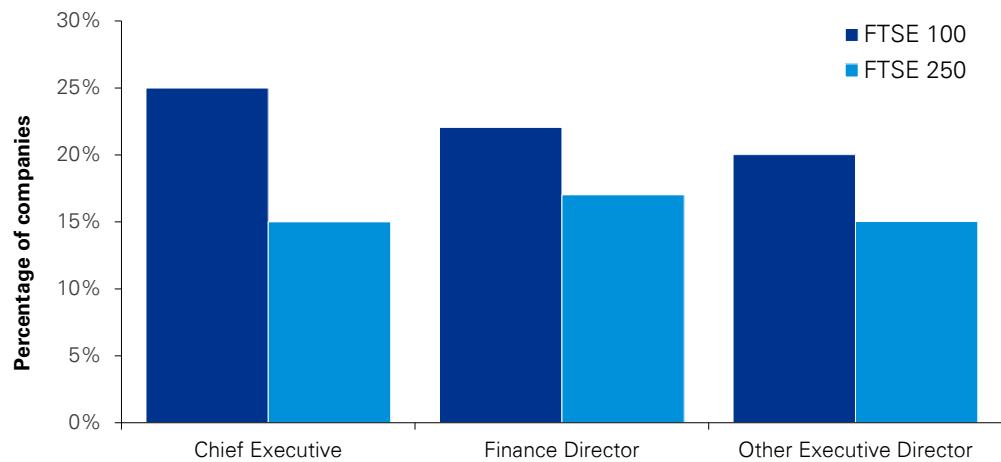
The table above summarises the cap on defined contribution rates and cash in lieu of contributions for new directors in the FTSE 100 and FTSE 250.

Across the FTSE 350, the median cap on pension contributions and cash in lieu of contributions for new hires is now 15%. We foresee a continuing debate as to whether this level of contribution can be described as being 'aligned' with the rate available to the workforce. We may see a further reduction in this figure over the next twelve months.

Contribution levels - FTSE 350

The chart below shows the median pension contributions (and cash in lieu payments) expressed as a percentage of basic salary. It is important to note that this data is 'backwards looking' as it is taken from single figure table data for the most recent year and, taken in isolation, should be treated with some caution.

Median pension contributions/'cash in lieu' for all schemes as a percentage of base salary



As noted above, the drive towards greater pension alignment between executives and the workforce affects both new hires and incumbents. Whilst offering lower contribution rates to new directors is relatively straightforward, the position for incumbents is less so, particularly where a director may have a pre-existing contractual entitlement.

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

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

FTSE 100 pension arrangements



FTSE 250 pension arrangements



08. Shareholding requirements



Having a minimum shareholding requirement is now an expected practice for FTSE 350 companies. Executive Directors are encouraged to build up significant holdings in their company's shares to demonstrate alignment with shareholders. To further strengthen this alignment, the Code now includes a requirement for remuneration committees to develop a post employment shareholding requirement.

Median shareholding requirements

The table below sets out the median 'in service' shareholding requirement for companies in the FTSE 350 by role.

Minimum Shareholding Requirements (% of salary)

	FTSE 100	FTSE 250
Chief Executive	300%	200%
Finance Director	200%	200%
Other Executive Directors	200%	200%

Median number of years to build shareholding requirements

The time limit which remuneration committees set for executives to meet this level of shareholding is typically 5 years. This figure is the same for companies in both the FTSE 100 and FTSE 250.



What counts towards the holding?

In its Principles of Remuneration, the Investment Association (IA) provides guidance on what should count towards the minimum shareholding requirement:

- Shares should only count towards the requirement if vesting is not subject to any further performance conditions;
- Unvested shares, which are not subject to a further performance condition may count but on a net of tax basis;
- Shares which have vested but remain subject to a holding period or clawback may count towards the shareholding; and
- Shares vested from a long term incentive award but still in the holding period can also be used to meet the shareholding requirement.

Retention of incentive shares

Whilst executives are encouraged to purchase company shares with their own resources, there is inevitably a link between executive share plans and minimum shareholding requirements. Companies are increasingly specifying a proportion of incentive gains which must be retained until the minimum shareholding requirement is achieved. Where there is such a requirement, the typical proportion which must be retained is around 50% of the shares which vest (net of tax).



Post-employment shareholding requirements

Companies are increasingly strengthening their post-employment shareholding requirements in the wake of the revised Code. Market practice in this area is still emerging with FTSE 100 companies leading the way.

The IA's guidelines state that the post employment shareholding requirement should apply for at least two years at a level equal to the lower of:

- The shareholding requirement immediately prior to departure; or
- The actual shareholding on departure.

Policing the requirements

Where shareholding and, in particular, post-employment shareholding requirements apply, it is important that the company puts in place arrangements that will help it to monitor and police those holdings. Such arrangements should be established and agreed with each director before any shares vest and are acquired under any share plan to which a holding period applies.

One of the most administratively straightforward ways of holding and monitoring a director's shareholding both pre- and post-employment is to set up a nominee arrangement either with the trustees of the company's EBT or with the company's registrars under which shares acquired following the vesting or exercise of share awards are automatically held by the nominee (as legal owner) on behalf of the director (as beneficial owner). Once the director is free of any holding requirements, the legal title can be transferred to the individual.

Market practice is yet to emerge on the preferred way of policing these rules and some companies may choose to opt for other arrangements, including simple 'gentleman's agreements' between the executive and their employer. However with an increased external focus on compliance, the use of additional measures to safeguard this would appear to be prudent.

09. Non-Executive Director



This section provides information on remuneration for the role of Non-Executive Chairman and Non-Executive Director

Fee increases

The table below shows the percentage of FTSE 100 and FTSE 250 companies that increased fee levels for the Non-Executive Chairman and other Non-Executive Directors. Over a third of FTSE 350 companies increased fee levels, which is in line with the previous year.

Percentage of companies increasing fees

	Non-Executive Chairman	Other Non-Executive Directors
FTSE 100	39%	40%
FTSE 250	36%	41%

Fees are not typically reviewed or increased on an annual basis and as such increases may initially appear to be higher than those for executive directors.

The following table shows the fee increases for the FTSE 100 and FTSE 250 companies which increased fee levels.

Median fee increases

		Median
FTSE 100	Non-Executive Chairman	3%
	Other Non-Executive Directors	3%
FTSE 250	Non-Executive Chairman	4%
	Other Non-Executive Directors	3%

Non-Executive Chairman

The Non-Executive Chairman is responsible for the leadership of the board, ensuring effectiveness in all aspects of its role and setting the agenda.

The Non-Executive 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 Non-Executive Chairman and other Non-Executive Directors.

The following tables show the total Non-Executive Chairman fees broken down by market capitalisation, 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 smaller companies.

Chairman fees by market capitalisation

	Market capitalisation	Lower Quartile (£'000s)	Median (£'000s)	Upper Quartile (£'000s)
FTSE 100	>£10bn	500	625	700
	£5bn-£10bn	309	357	433
	<£5bn	205	277	310
	All FTSE 100	316	425	559
FTSE 250	>£2bn	224	276	320
	£1bn-£2bn	180	230	265
	<£1bn	150	180	202
	All FTSE 250	179	220	277

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-Executive Directors in their review of the Non-Executive 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. This may explain the decrease in Deputy Chairman fees when compared to last year.

Based on the 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.

Deputy chairman fees

	Lower Quartile (£'000s)	Median (£'000s)	Upper Quartile (£'000s)
FTSE 100	105	123	192
FTSE 250	63	80	138

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

FTSE 100	12	20	30
FTSE 250	8	10	13



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 SID.

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

Non-executive director fees by market capitalisation

	Market capitalisation	Lower Quartile (£'000s)	Median (£'000s)	Upper Quartile (£'000s)
FTSE 100	>£10bn	75	85	92
	£5bn-£10bn	60	65	70
	<£5bn	57	61	68
	All FTSE 100	61	70	84
FTSE 250	>£2bn	55	60	65
	£1bn-£2bn	50	54	60
	<£1bn	47	51	56
	All FTSE 250	50	55	61

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. The Code states that "before appointment as chair of the remuneration committee, the appointee should have served on a remuneration committee for at least 12 months".

Company size again has an influence over the level of

additional fees. The risk committee still commands the highest additional fees for members. For both chairmanship and membership of the CSR committee and the risk committee, fees have increased, which may be related to the increased pressure on large companies to be socially responsible.

The tables below show the 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	20	31
Nomination	10	15	20
CSR Committee	13	25	30
Risk Committee	20	30	69
Other	13	20	30

FTSE 250 Committee chairmanship fee levels

	Lower Quartile (£'000s)	Median (£'000s)	Upper Quartile (£'000s)
Remuneration	9	10	15
Audit	10	11	15
Nomination	8	10	10
CSR Committee	11	15	19
Risk Committee	12	19	24
Other	8	10	14

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

Almost all FTSE 350 companies pay additional fees for membership of the main board committees.

FTSE 100 Committee membership fee levels

	Lower Quartile (£'000s)	Median (£'000s)	Upper Quartile (£'000s)
Remuneration	8	14	18
Audit	15	20	30
Nomination	8	10	13
CSR Committee	7	13	15
Risk Committee	11	25	34
Other	11	15	20

FTSE 250 Committee membership fee levels

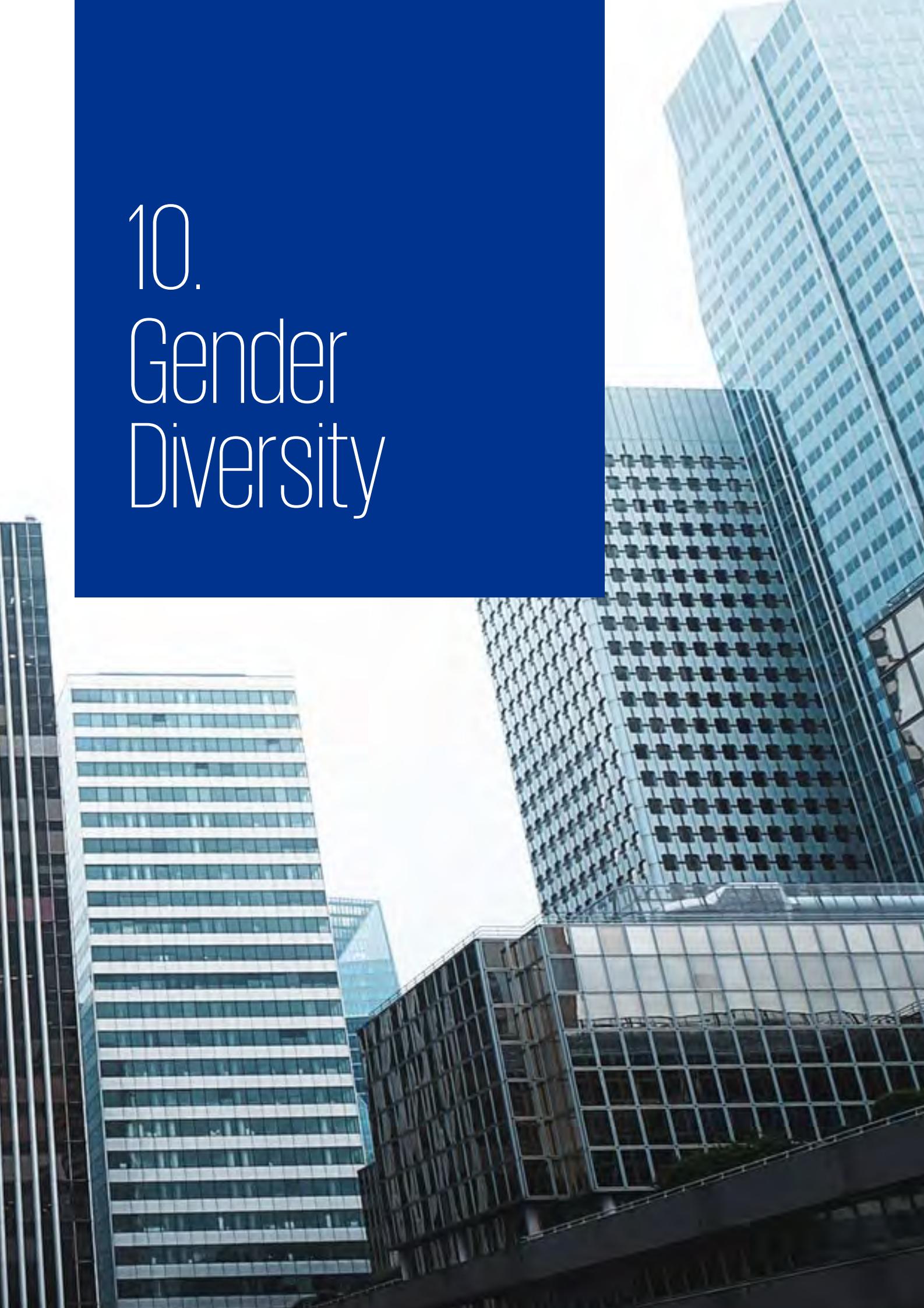
	Lower Quartile (£'000s)	Median (£'000s)	Upper Quartile (£'000s)
Remuneration	5	5	10
Audit	8	10	15
Nomination	4	5	6
CSR Committee	5	5	5
Risk Committee	5	10	11
Other	5	5	8

Time commitment

There is insufficient disclosure in companies' annual reports with respect to the time commitment required of a Non-Executive Chairman or Non-Executive director role to perform any robust analysis. However, prior experience tells us that a Non-Executive 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.

10. Gender Diversity

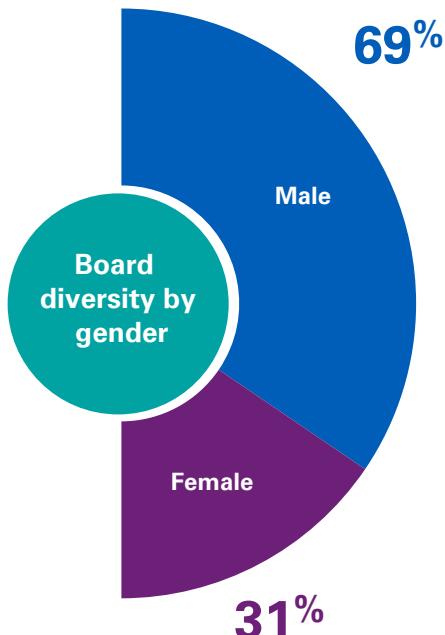


Women on Boards

In 2016, an independent review of the FTSE 350, initiated by the Government, by Sir Philip Hampton and the late Dame Helen Alexander concluded that a third of FTSE 350 boards should be filled by women by the end of 2020.

The 2019 report found that the number of women on Boards in the FTSE 100 has increased and is close to the target, reaching 32.4% in 2019. This rising trend is also seen in the FTSE-250, which has seen a significant increase in women on Boards for 2019. If this upwards trend continues, with nearly half the available appointments going to women, the FTSE-250 should also be able to meet the 33% target.

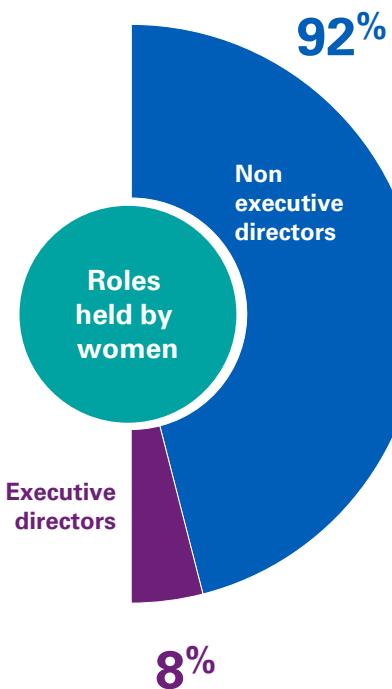
The chart to the right shows the composition of Boards in the FTSE 350 by gender.



Executive roles

Whilst the progress reported above is encouraging, the proportion of Executive Director roles held by women remains low.

The chart to the right shows that the vast majority of the Board positions held by women are Non-Executive Director roles.



Executive Director remuneration levels

The following tables, segmented by company turnover, show basic salary, bonus pay outs and total earnings for male and female executive directors. The number of females holding executive director roles on FTSE 350 boards remains low and changes to individual circumstances may have a disproportionate impact on the data. Therefore caution must be exercised when drawing conclusions from this data set.

Overall it appears that the remuneration provided to female executive directors is typically lower than that paid to male executive directors. What is interesting to note however is that the biggest differential between male and female earnings relates to variable pay. In relation to Finance Directors, for example, whilst the difference in basic salary is 6%, the difference in total earnings (which include bonus and LTIP payments) is 30%.

Basic salary

The table below, segmented by company turnover, shows median basic salary by gender in the latest reported financial year.

Basic salary

Turnover	Chief Executive		Finance Director		Other Executive Directors	
	Male (£'000s)	Female (£'000s)	Male (£'000s)	Female (£'000s)	Male (£'000s)	Female (£'000s)
FTSE 100	>£15bn	1,244	1,028	748	850	784
	£5bn - £15bn	917	796	569	563	490
	<5bn	700	838	473	425	455
	All FTSE 100	850	838	554	515	513
FTSE 250	>£1bn	631	513	400	400	420
	£500m - £1bn	545	-	346	423	437
	<500m	465	446	332	321	327
	All FTSE 250	569	485	364	350	369
FTSE 350	All FTSE 350	634	704	425	400	439

Annual bonus pay outs

The table below, segmented by company turnover, shows median actual bonus pay outs by gender in the latest reported financial year.

Annual bonus

Turnover	Chief Executive		Finance Director		Other Executive Directors	
	Male (£'000s)	Female (£'000s)	Male (£'000s)	Female (£'000s)	Male (£'000s)	Female (£'000s)
FTSE 100	>£15bn	1,324	1,912	778	1,159	887
	£5bn - £15bn	1,060	522	686	385	457
	<5bn	709	772	521	615	605
	All FTSE 100	1,033	772	622	615	643
FTSE 250	>£1bn	602	263	351	241	282
	£500m - £1bn	355	-	238	325	0
	<500m	475	181	290	254	183
	All FTSE 250	493	181	301	267	218
FTSE 350	All FTSE 350	604	522	395	317	383
						252

Total earnings

The table below, segmented by company turnover, shows median total earnings by gender in the latest reported financial year.

Total earnings

Turnover	Chief Executive		Finance Director		Other Executive Directors	
	Male (£'000s)	Female (£'000s)	Male (£'000s)	Female (£'000s)	Male (£'000s)	Female (£'000s)
FTSE 100	>£15bn	4,609	5,887	2,830	5,666	3,589
	£5bn - £15bn	3,578	1,771	1,956	1,449	1,884
	<5bn	3,085	3,695	1,650	1,203	1,692
	All FTSE 100	3,405	3,695	2,089	1,627	2,289
FTSE 250	>£1bn	1,981	884	1,194	839	1,130
	£500m - £1bn	1,480	-	998	919	458
	<500m	1,434	1,144	960	746	826
	All FTSE 250	1,760	918	1,106	860	921
FTSE 350	All FTSE 350	2,188	1,771	1,391	971	1,432
						826

'One and Done' Boards

Also of concern are 'One & Done' Boards, raising perceptions of a tokenistic approach to gender equality on Boards. In many cases, where this approach has been taken it is often seen as little different to having no female representation. There has been some progress here also with the number of 'One & Done' boards having decreased from 74 in 2018 to 39 this year due in part to a joint approach between The Hampton Alexander Review and the Investment Association.

The investor and regulatory perspective

Given the intensified investor interest, gender equality is a key strategic focus of a number of regulatory and advisory bodies, including the Investment Association, ISS and the FCA.

Whilst the Investment Association has been tackling gender diversity on a wider scale, as mentioned above, they have also stated that IVIS will 'red-top' companies with no or only one woman on their board, whilst those with 25% or less female representation will receive an 'amber-top'.

Additionally, the ISS guidelines now advise that companies with no female directors on the Board should receive an adverse vote unless there are specific mitigating factors. The rationale for this guidance is based on the ISS 2019 Global Policy Survey in which the question of the importance of gender diversity on boards showed that the majority of both investors and non-investors felt that this was an essential attribute of effective board governance.



Where next?

The 'gender in the board-room' debate has gathered real pace and shows no sign of abating. Whilst the causes of and solutions to the imbalance are complex, a combination of investor pressure and societal change means that companies are looking ever more closely at how they manage their talent pipeline and nomination processes. As more and more data becomes available we look forward to analysing how more representative Boards translates into fairness in pay. Companies are starting to close in on gender targets, and we should anticipate greater focus shifting in future to spotlight wider diversity representation.



"To truly address a lack of diversity at the top we must look at every stage of the talent pipeline and focus on all aspects of recruitment, retention and promotion. This combined with an emphasis on creating an inclusive environment in which all talent can thrive, leadership stereotypes are challenged and individuals are valued for their skills and capabilities."

Melanie Richards CBE, Deputy Chair, KPMG

11. Methodology & assumptions



Data sources

Unless otherwise stated, all graphs and tables have been created by KPMG, from data provided by E-reward. The data provided by E-reward has been further analysed by KPMG, using the methodology outlined below.

Data sample

FTSE constituents and market capitalisation figures are as at 30 September 2019 and turnover figures used for the analysis are as at the relevant reporting date for each company.

The positions included in the data sample are: Chief Executive, Finance Director, Other Executive Directors and Non-Executive Directors. Other Executive Directors 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 and the cash value of pension arrangements. The final figure may also include some miscellaneous payments such as special payments for pensions, one-off bonuses for particular projects and profit share

Unless stated otherwise, 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 this guide, 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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