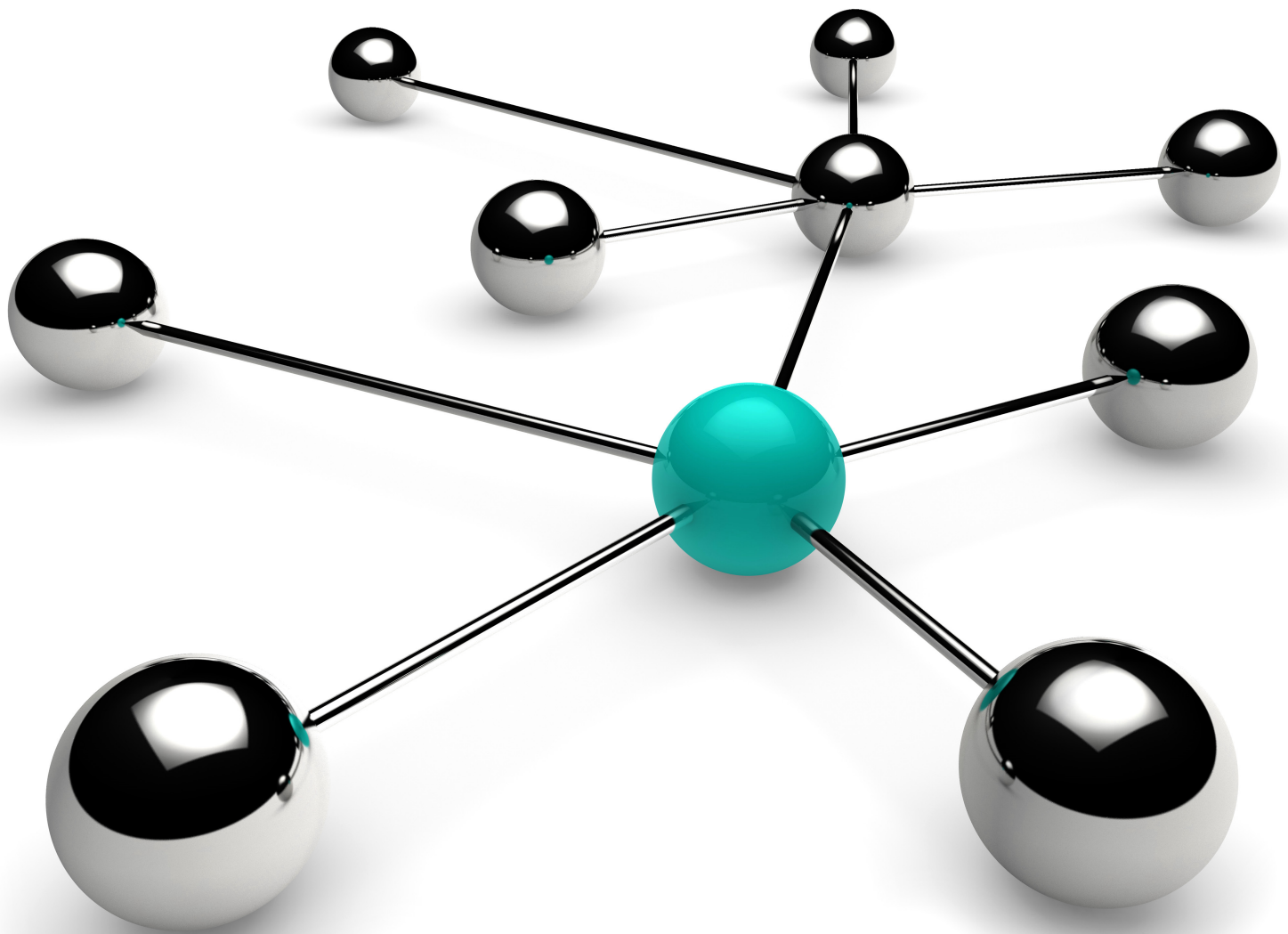
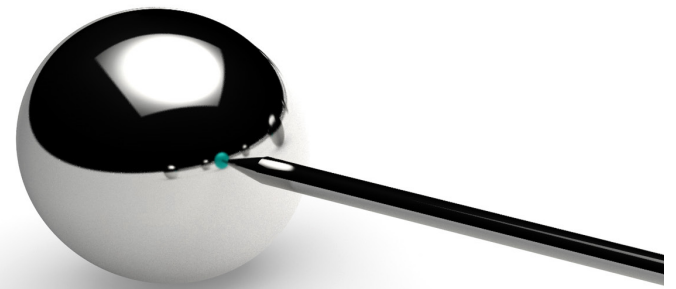


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Remuneration voting *2015 AGM season*

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Remuneration voting

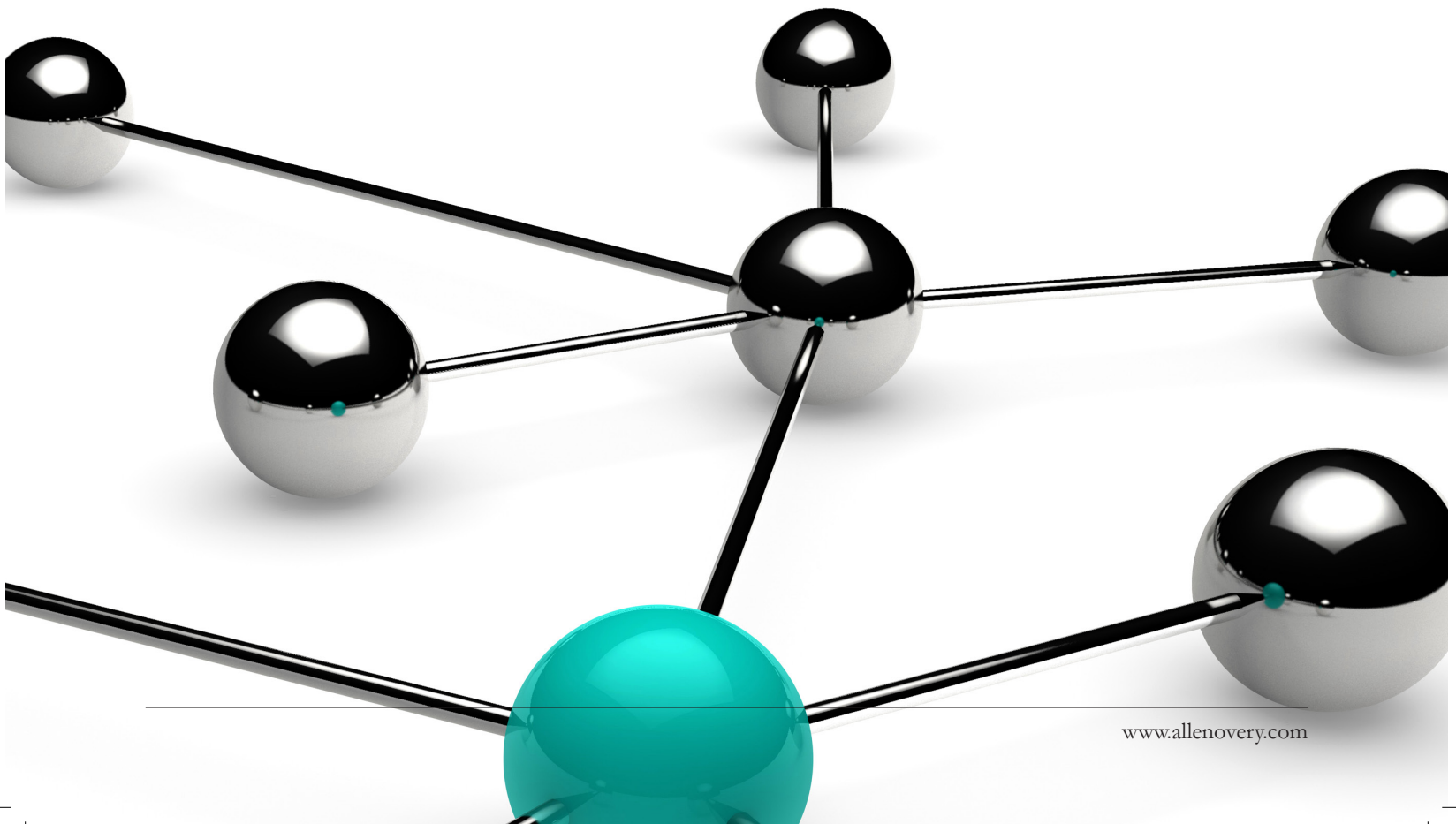
2015 AGM season

Over the 2015 AGM season, remuneration reporting continued to be an area of investor discussion and shareholder scrutiny. We have analysed the shareholder votes on resolutions to approve directors' remuneration reports and directors' remuneration policies during the 2015 AGM season (**Report Votes** and **Policy Votes** respectively) to gain further insight into the challenges faced by companies in this round of remuneration reporting, and to assess how the reports and policies were received by shareholders.

Our analysis covers the voting results at meetings held by FTSE 350 companies before September 2015 for which data is available – a total of 302 companies.

We have also looked at the number of companies who re-submitted their directors' remuneration policies for approval, after one year of operation, and the types of concerns typically raised by shareholders on remuneration policies and reports.

The summary identifies some recurring trends and addresses what we can expect from the next voting season.



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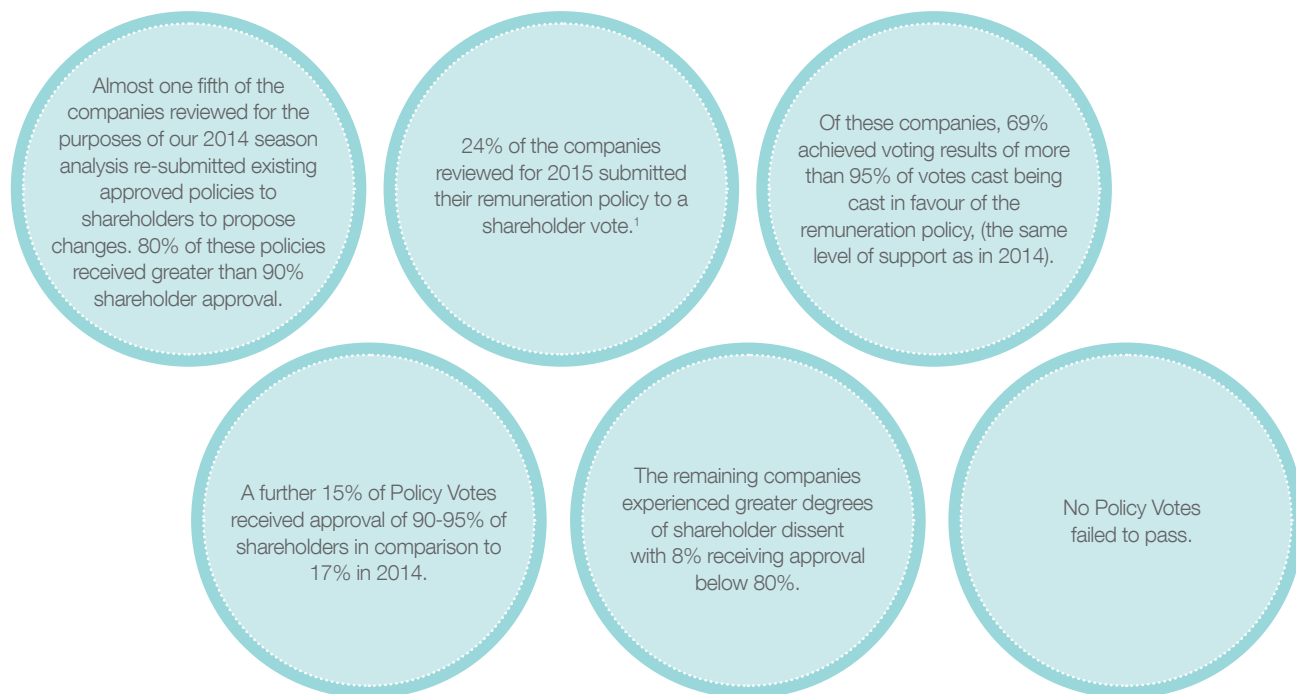
Policy Votes

OVERVIEW

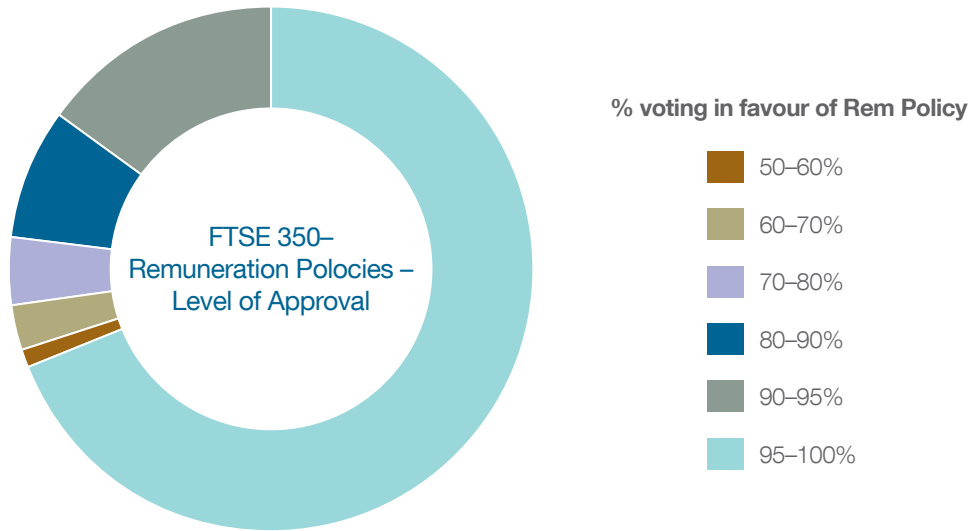
The 2015 AGM season saw the UK's second round of Policy Votes. Companies are required to submit their remuneration policy to a binding shareholder vote a minimum of every three years. Having put in place policies under the new regime at their last AGM, at the beginning of 2015, there was speculation over whether companies who wished to alter their remuneration policies for various reasons would submit new remuneration policies for shareholder approval, or whether most companies would keep their existing policies in place.

The 2015 AGM season saw 73 companies put Policy Votes to shareholders, with approximately 80% of companies keeping existing policies in place unchanged. Several companies revised their remuneration policies and submitted them for shareholder approval during the course of the year, rather than at AGMs. Where this occurred, it was largely to facilitate the introduction of new share plans.

Notwithstanding the press scrutiny, and shareholder dissent in a minority of cases (in which the primary area of concern was significant increases in or very high levels of payment made to executives), overall, levels of shareholder approval for policies submitted by companies were strong.



¹ Data for 273 companies were reviewed in 2014. At publication of the September 2015 review, data for 302 companies including those listed within the year and newly subject to reporting requirements were available, and included within the analysis.



SIGNIFICANT SHAREHOLDER REBELLIONS

The Policy Vote passed at all companies reviewed. There were sizeable shareholder votes against remuneration policies at a small number of companies, with dissenting votes against totalling 40-50% at 1% of companies (1), 30-40% at 3% of companies (2), 20-30% at 4% of companies (3) and 10-20% at 8% of companies (6).

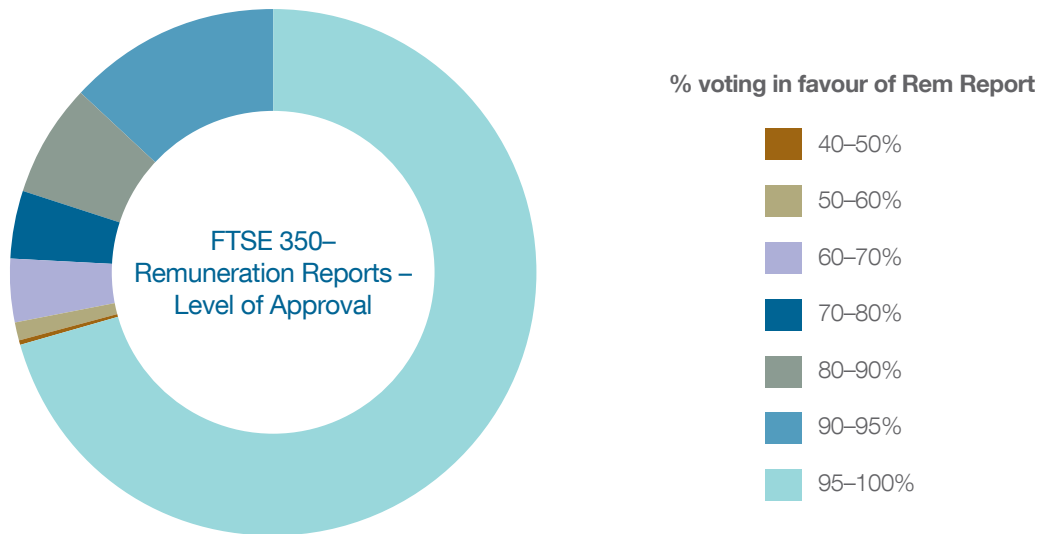
Overall, the level of dissent was, as might be expected, slightly lower this year, compared to the 2014 voting season.

However, if votes withheld are taken as dissenting, overall levels of opposition are higher.

Report Votes

OVERVIEW

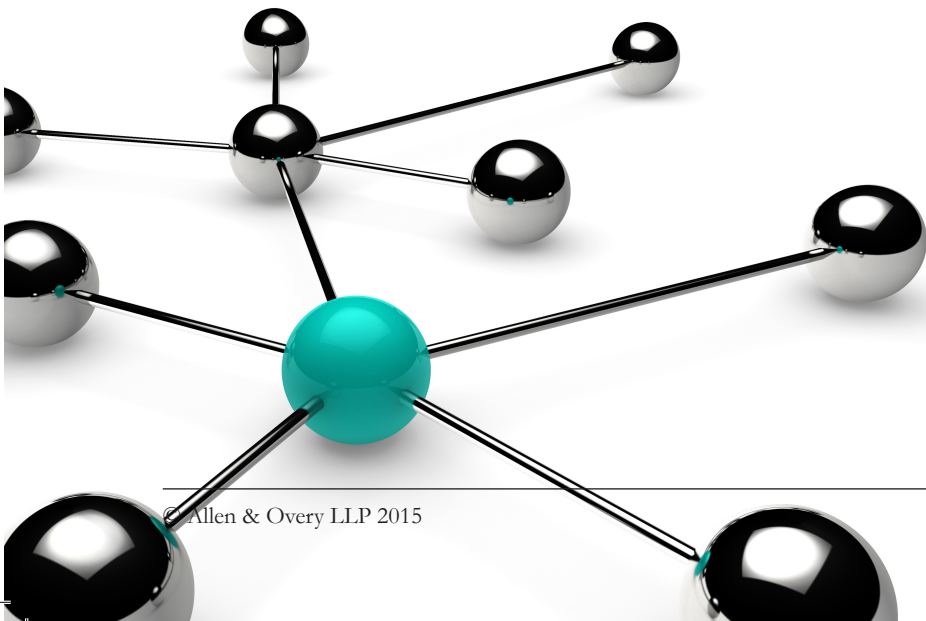
Remuneration reports generally received strong levels of support and an increased level of support as compared to last year. In 2014, almost a fifth of companies received less than 90% approval for their remuneration reports, while this year, only 16% of companies failed to meet this threshold.



SIGNIFICANT SHAREHOLDER REBELLIONS

The Report Vote failed to pass at just one company due to objections raised in relation to the remuneration package offered to the incoming CEO, but there were again sizeable shareholder rebellions in a number of instances. Dissenting Report Votes totalling more than 40% were received at 1% of companies, 30-40% at 4% of companies, 20-30% at 3% of companies and 10-20% at 7% of companies.

As with the Policy Votes, the level of dissent was slightly lower this year, compared to the 2014 voting season and, again, overall levels of disapproval are higher if votes withheld are taken as dissenting.



Trends in shareholders' concerns

There were a number of noteworthy company-specific issues raised by shareholders (for example, the exit arrangements of specific individuals, the terms of discretionary recruitment awards, overly complicated remuneration arrangements and the payment of bonuses in circumstances of company underperformance), but also certain recurring trends of shareholder concern in particular areas.

The most commonly recurring issue raised by both shareholders and investor institutions regarding remuneration reports (as was the case in 2014) related to the level or lack of disclosure of targets for LTIP and other bonus awards and incentive arrangements.

Concerns were also raised on multiple occasions in relation to significant increases in pay or generous bonus payments viewed by shareholders as excessive.

SHAREHOLDER CONCERNS – REMUNERATION POLICIES

- Increases in salary levels and maximum bonus opportunities, and changes to remuneration packages.
- General discretion of remuneration committees over recruitment arrangements and grants of additional awards to newly recruited executives, in addition to normal annual incentive awards.
- Level and method of determination of vesting thresholds of incentive awards.
- General discretion of the remuneration committee on remuneration issues including adjustments and increases to future payments.

SHAREHOLDER CONCERNS – REMUNERATION REPORTS

- Increases in salaries, bonus awards and remuneration packages for company executives.
- Lack of disclosure of bonus and incentives targets or lack of commitment to disclosure of targets in the future.
- Lack of in-depth, forward-looking disclosure in terms of remuneration structures.
- Targets for incentive arrangements, bonus and variable pay remaining sufficiently stretching in line with market consensus and remaining linked to the long-term performance of the company.
- Complicated remuneration structures and incentive arrangements.
- Recruitment arrangements including levels of pay for and awards granted to newly recruited executives.
- Discretion of Remuneration Committees in respect of bonus uplifts and increased payments under extraordinary circumstances.

Looking ahead

Based on analysis of the shareholder concerns through the 2015 voting season, together with issues raised by investor bodies, we have reflected on what we might expect during the 2016 reporting season. The following points highlight some of the remuneration practices, reporting and disclosure shareholders and investors might expect from companies:

- An outline timetable and increased disclosure of when companies expect to publish retrospective information on bonus and incentive targets, taking into account commercial sensitivities.
- Increases in quantum of awards should be in line with inflation and the general workforce with benchmarking to be used as a guideline only.
- Retrospective changes to performance conditions are not and will continue not to be acceptable.
- A move towards three-year policies to bind companies to longer-term commitments and longer performance and holding periods. Policies re-submitted to shareholders for approval will need to show clearly the reasons for short-term changes made and any divergence from previous policy.
- Reporting to be linked to business strategy i.e. metrics and long term business planning should align. This could mean an increased role of the Chairman's letter to highlight the links between metrics and strategy.
- A continued drive for simplicity in incentive and remuneration arrangements.



Your Allen & Overy contacts

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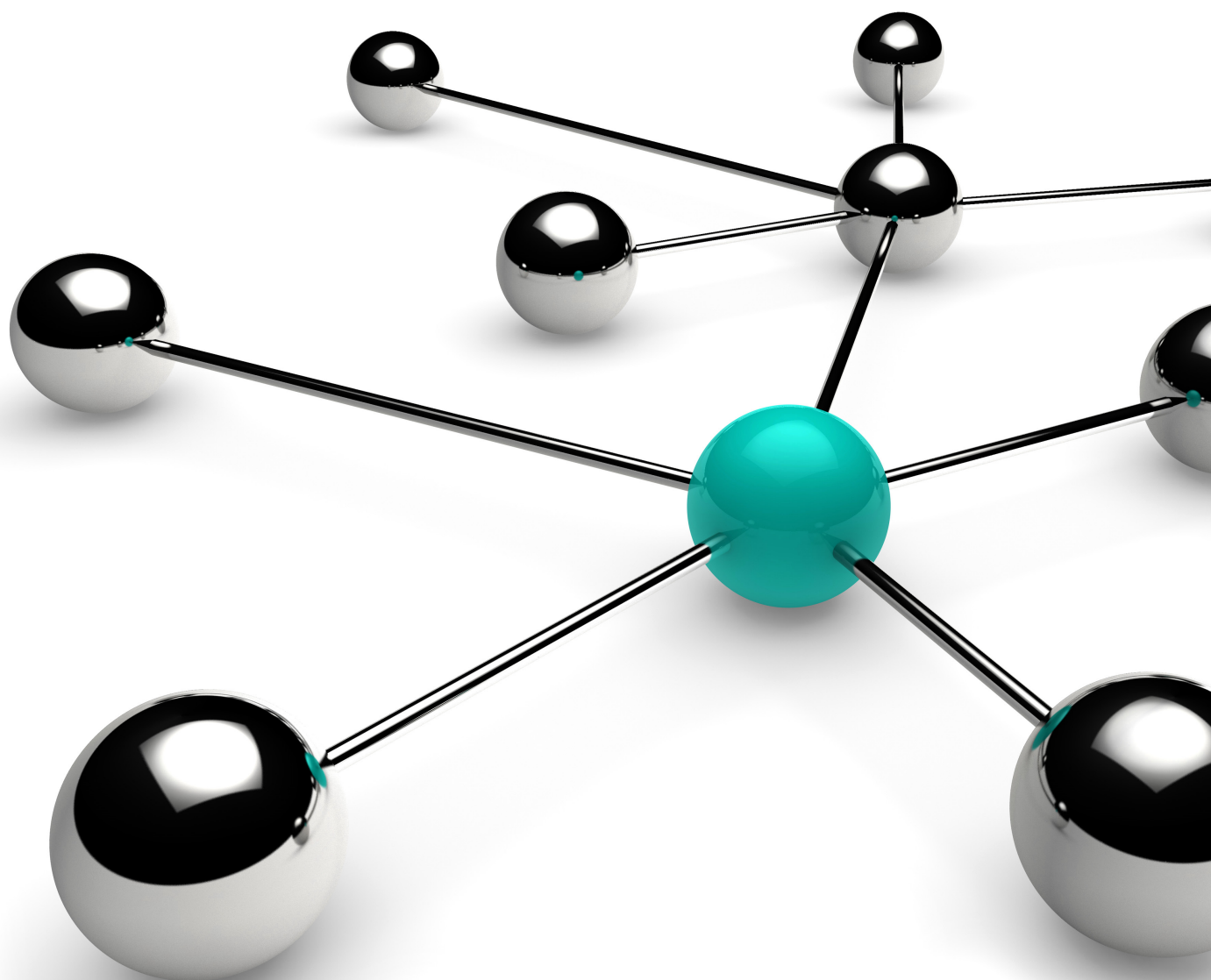


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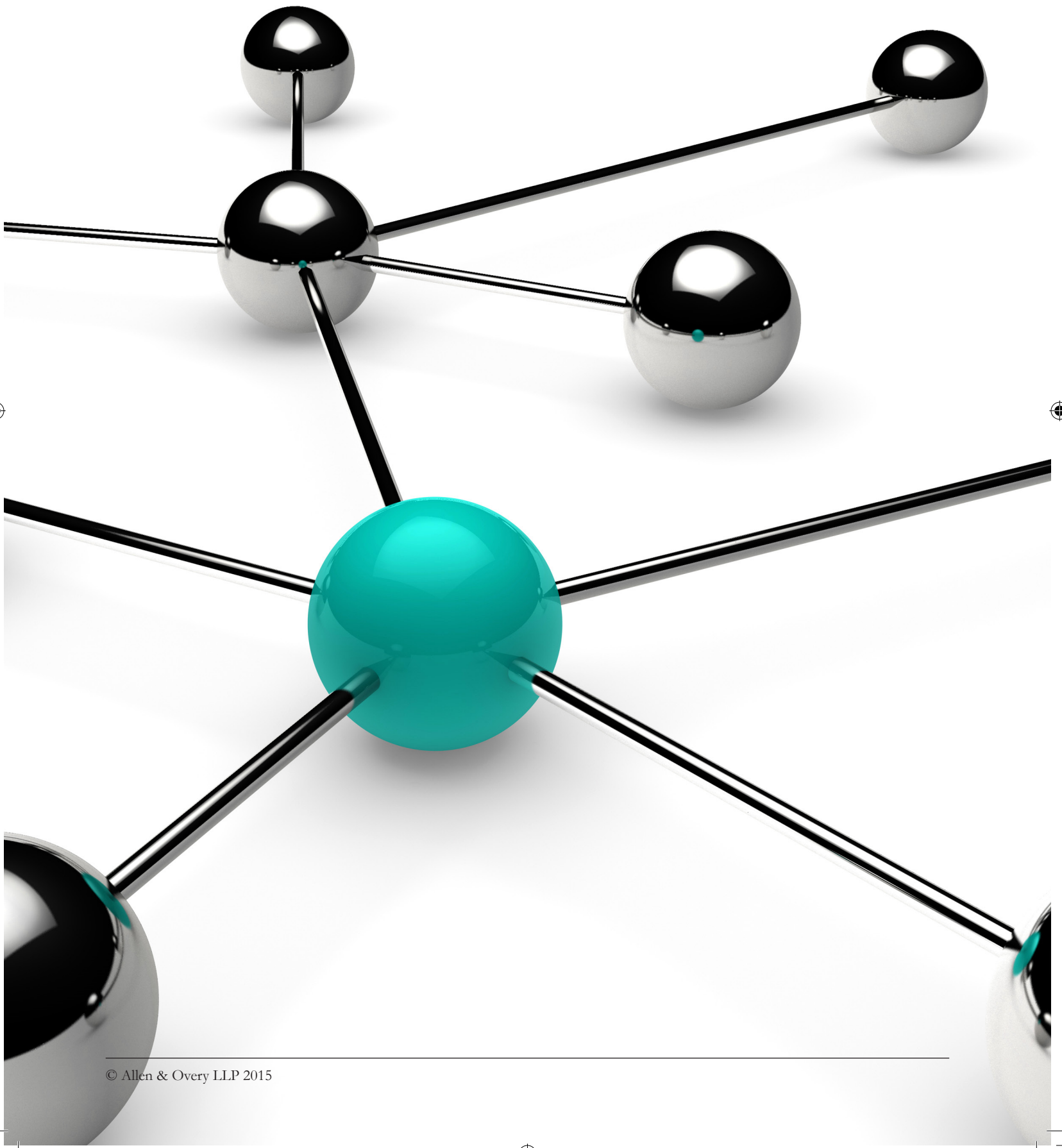


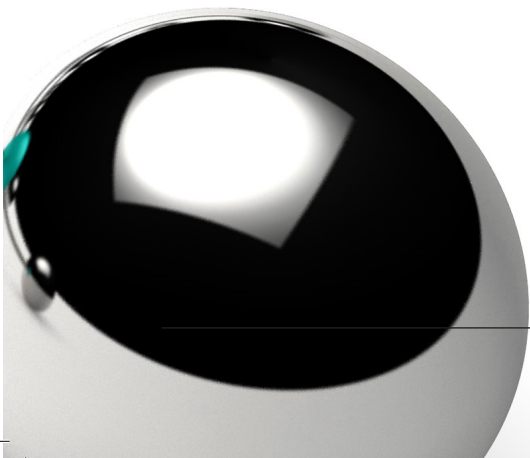
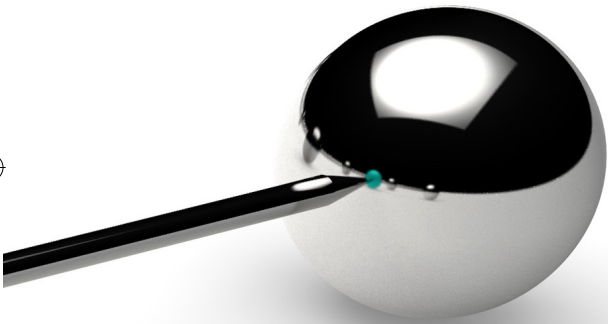
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