UK EXECUTIVE COMPENSATION SERVICES

2025 BONUS AND LTIP TARGET SETTING TOOLKIT

FEBRUARY 2025

ALVAREZ & MARSAL

LEADERSHIP. ACTION. RESULTS.℠

INTRODUCTION

Welcome to the third edition of our target-setting toolkit.

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Setting performance targets, for both short and long-term incentives, is a key activity in the remuneration committee's annual cycle. Striking a fair balance between the interests of all stakeholders is a complex task. Targets must be sufficiently stretching to satisfy shareholder expectations while remaining fair and achievable for management. This challenge has intensified amid prolonged geo-political and macroeconomic uncertainty.

As with any remuneration committee decision, targets should reflect the specific circumstances and needs of the business rather than simply following market norms. At the same time, it is natural for remuneration committees to ask, "How does this compare to what others do?" Providing relevant market reference points can help inform judgment when target-setting.

The purpose of our annual 'toolkit' is to support remuneration committees and reward teams by providing a range of market reference points for profit-based performance targets within both the annual bonus and the long-term incentive across the FTSE 100, FTSE 250, and FTSE Small Cap.

A key theme in the ongoing Big Tent debate around executive pay in the UK has been the divergence in practices between the UK and US markets. Some have argued that greater flexibility in the structure and quantum of pay —aligning more closely with practice in the critical US talent market— could benefit some UK-listed companies. In this context, this year's report includes new research (pages 8-16) comparing annual bonus target-setting practices in the UK and US, providing useful insights for companies and investors.

The data in this report are sourced from our A&M incentive targets database based on the latest publicly available disclosures from companies with year-ends up to 30 June 2024.

Should you wish to discuss any aspect of the data, its implications for your business, or request specific data cuts or analysis, please reach out to your A&M contact.

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OVERVIEW OF A GOOD TARGET-SETTING PROCESS

Effective target-setting starts with process. While this report is focused on targets for financial metrics, the principles below are relevant for ***any*** type of performance measure used in incentives, both short and long-term.

BOARD

The forum to discuss, scrutinise, challenge, and agree the plan for company performance. This might include:

- **Non-executive scrutiny:**
  What can the business reasonably be expected to deliver?
- **Sensitivity/scenario analysis:**
  What are the upside/downside opportunities & risks?
- **Relativity to market expectations:**
  How will we guide the market, how do plans compare to current and expected analyst consensus, what is the external messaging?

AGREED BUDGET / PLAN

As an output from the board, the agreed business plan can then be used as an input into RemCo decision making on incentive targets. Ideally, there should be a shared understanding of:

- **The achievability of the plan**; and
- **The upside / downside risks**

REMCO

The forum to calibrate the incentive targets using the agreed plan as a reference point. It is not good practice to re-open the board's discussion on the plan itself. Good process can include:

- **Effective committee papers with relevant data and reference points readily available, and with clear references to the related board papers and decisions**
- **Ensuring due consideration of the targets each year, rather than a simple 'rollover' from prior years**
- **'Two bites at the cherry' – an initial meeting to provide input on draft targets, with a second meeting for final approval**
- **Considering relativity of targets to guidance and market expectations**

CALIBRATING INCENTIVE TARGETS: MAKING AN INFORMED JUDGEMENT

In the context of the board's plan, the remuneration committee must then calibrate the performance target ranges. There is unlikely to be a 'formulaic' answer to this excercise and therefore judgement is required.

In making an informed judgement on the calibration of performance ranges, a variety of factors and references points may be relevant.

Target Setting Factors to Consider

DEGREE OF UNCERTAINTY

Are the ranges sufficiently wide to capture upside/downside risk?

PAY-OUT SCHEDULE

Subject to any Policy constraint, are the pay-out parameters (as % of maximum) at Threshold and Target appropriate?

GUIDANCE & CONSENSUS

How do ranges compare with market and investor expectations?

HISTORIC PERFORMANCE

Do ranges (and implied pay-outs) appear reasonable against prior year outcomes?

LEVEL OF OPPORTUNITY

Are upper ranges sufficiently stretching for the quantum available?

STAKEHOLDER EXPERIENCE

Are the participants' experiences and perspectives reflected?

While not providing 'the answer', market data can offer useful supporting reference points when considering some of these issues (with data potentially provided for the whole market, a specific industry, and/or a bespoke peer group). This 'toolkit' therefore provides data on the following aspects of market practice for bonus and LTIP target calibration:

- **Structure of pay-out / vesting schedule**
  How many points are in the schedule? What level of pay-out at each point?
- **'Shape' of performance ranges**
  How 'symmetrical' are typical bonus ranges around the Target point?
- **Implied profit growth in target ranges**
  What level of growth is required for Threshold, Target and Maximum pay-out?

KEY FINDINGS

ANNUAL BONUS - FTSE ALL SHARE

1 **Use of 3-point schedules:** Three quarters (79%) of companies use a 3-point schedule with Threshold, Target, and Maximum points. The typical payout at Threshold is either 0% or 25% of maximum and 50% commonly paid at Target.

Pay-out for Threshold
0% or 25%
(% of max)

Pay-out for Target
50%
(% of max)

2 **Widening profit target ranges: During the year, there was a trend towards wider profit target ranges in FTSE 100 companies.** This trend was less pronounced in the rest of the FTSE All-Share compared to the prior year. The shift in FTSE 100 practice may reflect more volatile market conditions or a movement towards adopting a more US-based approach to target-setting by larger UK companies.

3 **Symmetrical target ranges remain the most common approach.** However, just under half the market employ a 'skewed' approach, with targets often skewed towards the maximum end of the range.

% of companies employing a 'skewed' approach
47%

4 **Implied profit growth levels:** There is a wide range of practice on the level of implied profit growth in target ranges. Smaller companies typically require greater levels of growth.

Smaller companies typically require greater levels of growth.

ANNUAL BONUS - UK VS US ANALYSIS

1 **Similarities:**
Some aspects of target-setting practices align closely between the UK and US, such as the payout level for meeting the threshold profit target and the symmetry of the profit ranges around target.

2 **Key differences:**

- US companies tend to use wider performance ranges, with the typical percentage width around Target of 14% vs 7% in the UK.
- US annual bonus target ranges deliver lower payouts for meeting broker consensus forecasts. Historically, US companies have also delivered lower payouts relative to the maximum opportunity.

US
14%

VS

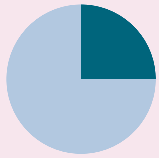
UK
7%

Historically, US companies have delivered **lower payouts** relative to the maximum opportunity.

LTIP - FTSE ALL SHARE

1 **Use of 2-point schedules:** Most companies use a 2-point schedule with Threshold and Maximum points. The Threshold payout is commonly 25% of maximum.

Common pay-out for Threshold:
25% of maximum



2 **Range disclosure practices:** In the FTSE 100, most companies continue to disclose ranges as percentage growth targets. In smaller companies, it is more common to calibrate EPS targets as absolute amounts (e.g., pence per share), sometimes on a cumulative basis over the performance period.

FTSE 100
Disclose ranges as percentage growth targets

Smaller companies
Calibrate EPS targets as absolute amounts (pence per share)

3 **Growth levels for vesting:** The median level of growth required for Maximum vesting increased slightly year-on-year in the FTSE 100 and 250 (11% and 12%, respectively), and remained similar in the FTSE Small Cap (15%). The median growth required for Threshold vesting remained at 5% for FTSE 100 and Small Cap but reduced slightly in FTSE 250 (4%).

	Median growth required for Threshold vesting	Median level of growth required for Maximum vesting
FTSE 100	5%	11%
FTSE 250	4%	12%
FTSE Small Cap	5%	15%

UK VS US TARGET-SETTING MARKET PRACTICE

Some UK-listed companies compete for talent in the US or within a global talent market influenced by US practices. An important current theme for UK market stakeholders has been to question whether closer alignment to US executive pay practices could better support the ability of these companies to compete for talent. This debate generally focuses on aspects of incentive structure (e.g. the greater prevalence of 'hybrid' awards in the US) or incentive quantum (being generally higher in the US).

Some companies have increased quantum with direct reference to US market dynamics. For companies that do align their approach to incentives more closely with the US market practice, one might also consider whether the approach to target-setting should also take into account a US perspective. To support this discussion, the analysis in this section compares and contrasts target-setting practices in the UK and US markets, focusing for these purposes on the profit element of the annual bonus. As with any aspect of target-setting, the data does not provide 'the answer', rather, it serves as an additional point of reference for reward teams, remuneration committees, and shareholders.

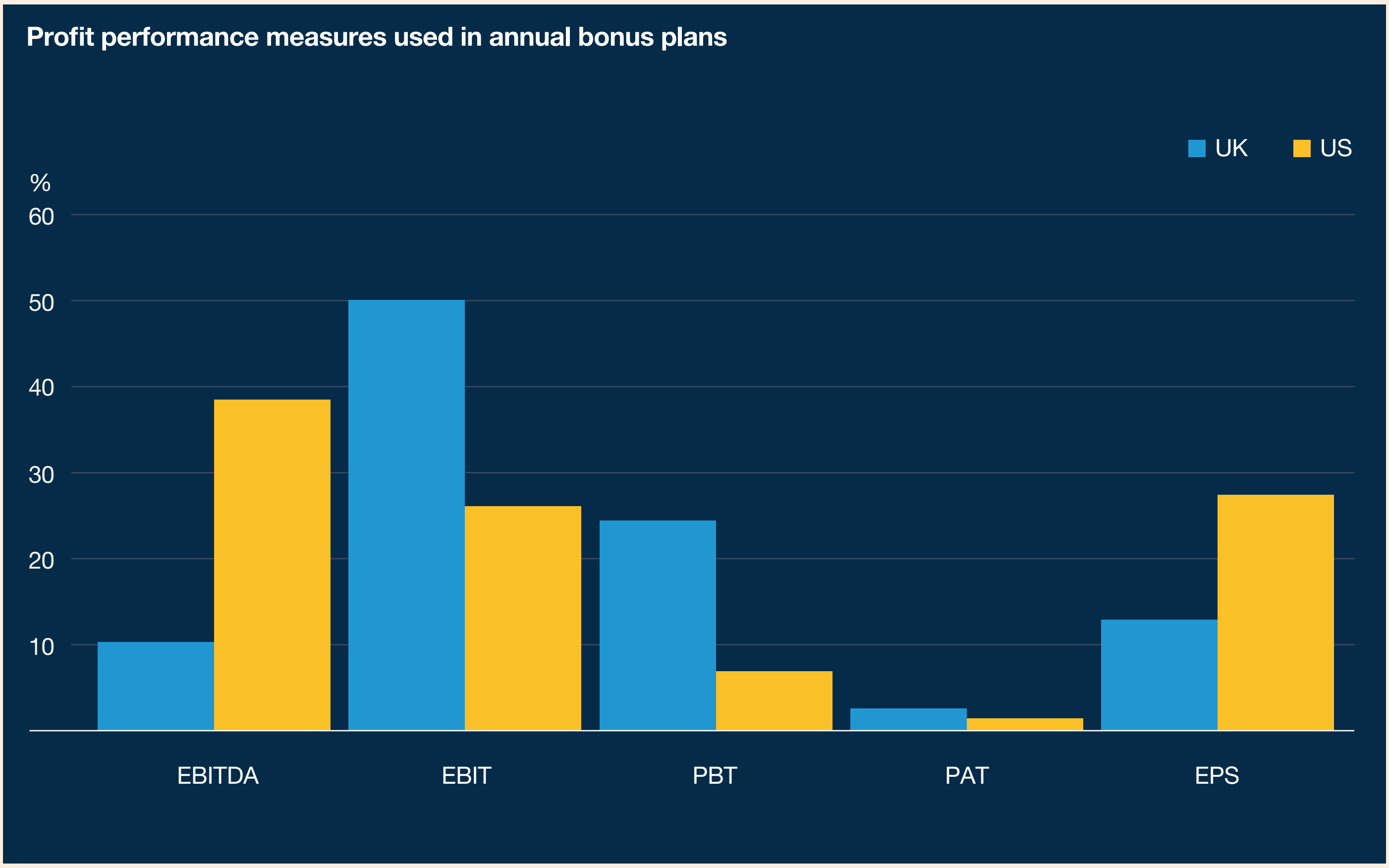
BASIS FOR COMPARISON

Our analysis focuses on the profit element of the annual bonus. We compare practice in the FTSE 100 with a sample of approximately 100 companies drawn from the S&P 1500. These companies were selected to represent a similar average revenue, market capitalisation, and sectoral classification as the FTSE 100. References to the 'US' below refer to this sample. Further information on the methodology is provided at the end of this report.

PROFIT PERFORMANCE MEASURES – EBITDA AND EPS MORE COMMON IN THE US

Different profit performance measures have pros and cons. Metrics higher up the income statement are generally considered to provide greater 'line of sight' for management, while those further down are considered to offer greater alignment with shareholder interests. Companies typically choose the profit metric they use to manage the business internally and report performance externally.

As shown in the chart, US companies are more likely to select either the most shareholder aligned profit measure (EPS) or the measure providing the most 'line of sight' (EBITDA). By constrast, UK companies are more likely to favour a 'middle ground' profit metric, such as operating profit (EBIT) or profit before tax (PBT) and are less likely to use measures at the extreme ends of the income statement compared to their US counterparts.



PAYOUT CURVES – SIMILARITIES AND DIFFERENCES BETWEEN THE UK AND US

Around 80% of companies in both the UK and US use a 3-point payout curve, setting three performance levels at Threshold, Target, and Maximum.

Despite the similarity in approach to calibration, there is a well-established difference in how payout curves are communicated to both participants and shareholders. In the UK, payouts are typically expressed as a percentage of maximum. In the US, it is common practice to consider performance as a percentage of target. For the purposes of our analysis, US data has been converted to align with the UK approach.

PAYOUT FOR TARGET PERFORMANCE

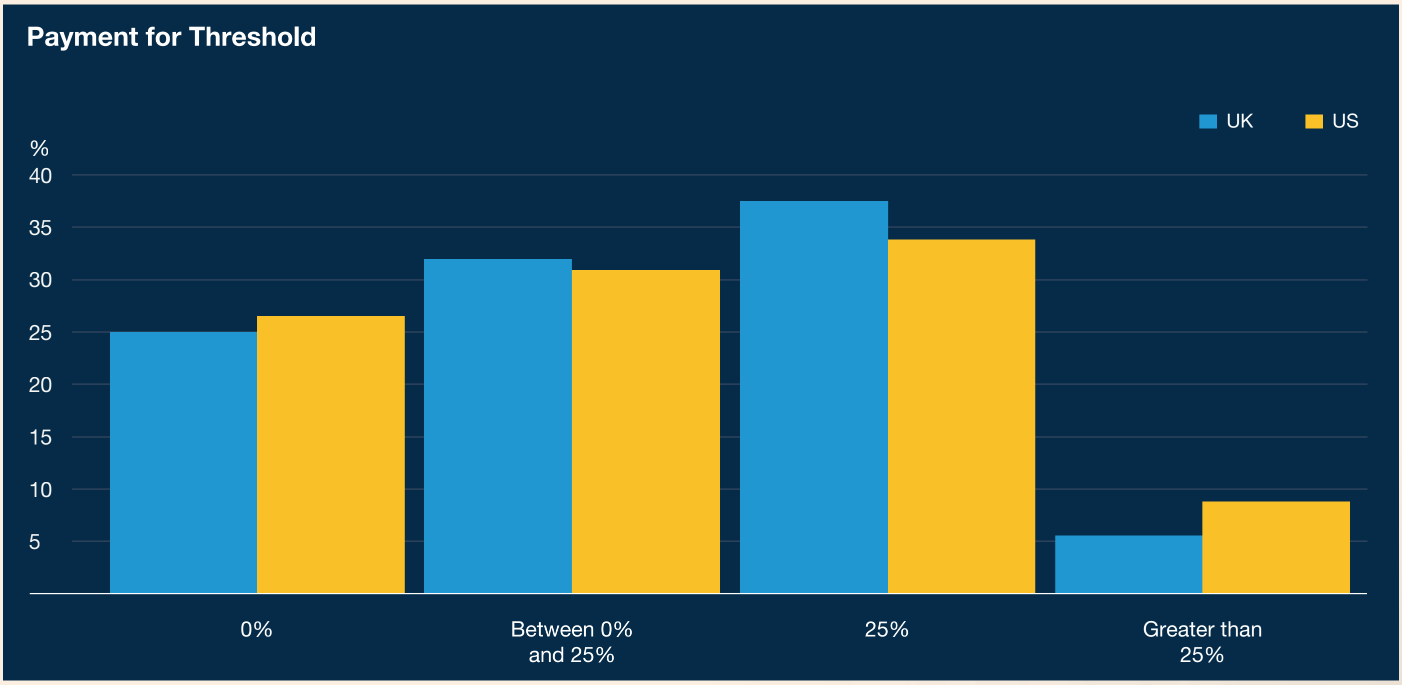
In the UK, achieving Target performance typically results in a payout of 50% of maximum. Although this is similar in the US, a reasonable minority of companies set the payout for Target performance at a higher level, often 67% of maximum.

AROUND 10% OF US COMPANIES SET THE PAYOUT FOR TARGET PERFORMANCE AT ABOVE 50% OF MAXIMUM

PAYOUT FOR THRESHOLD PERFORMANCE

The most common payout levels for achieving the Threshold profit target are 0% and 25% in both the FTSE 100 and US sample.

The median payout in the US sample is slightly lower at 14% compared to 20% in the FTSE 100. However, the charts illustrate that practices are broadly similar across both markets.



WIDTH OF PROFIT RANGES – RANGES TEND TO BE MATERIALLY WIDER IN THE US

The ‘width’ of the profit range represents the extent to which the Threshold and Maximum points of the schedule fall below and above the Target point, respectively.

A wider range can indicate:

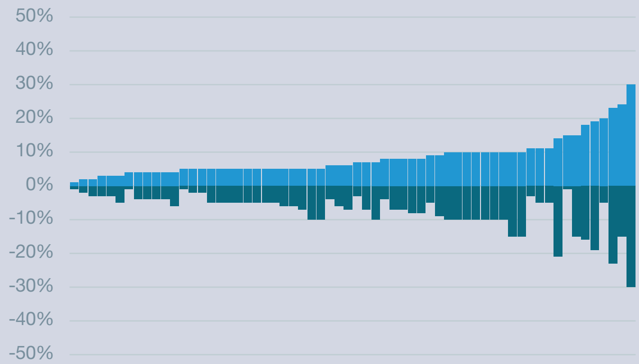
- **Lower sensitivity to profit changes:** Wider ranges result in less variation in bonus payouts for small changes in profit.
- **Higher uncertainty around profit expectations:** Wider ranges may be used when there is less visibility or predictability regarding profit performance.

In the UK, bonus profit ranges tend to be significantly narrower than in the US. The median width (in percentage terms) in the UK is around half that of the US. This is shown in the chart below, with each bar representing one company in the sample.

Width of profit ranges relative to Target

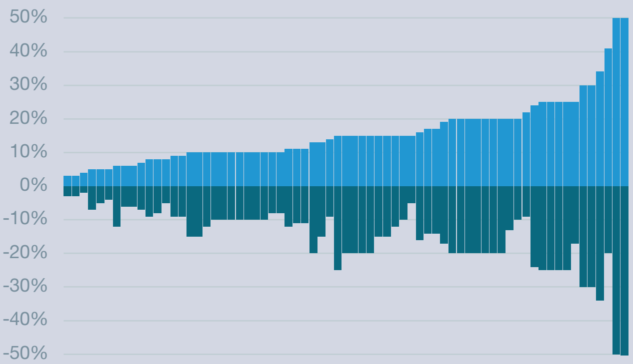
UK (narrower)

UQ	M	LQ
10%	7%	5%



US (wider)

UQ	M	LQ
20%	14%	10%



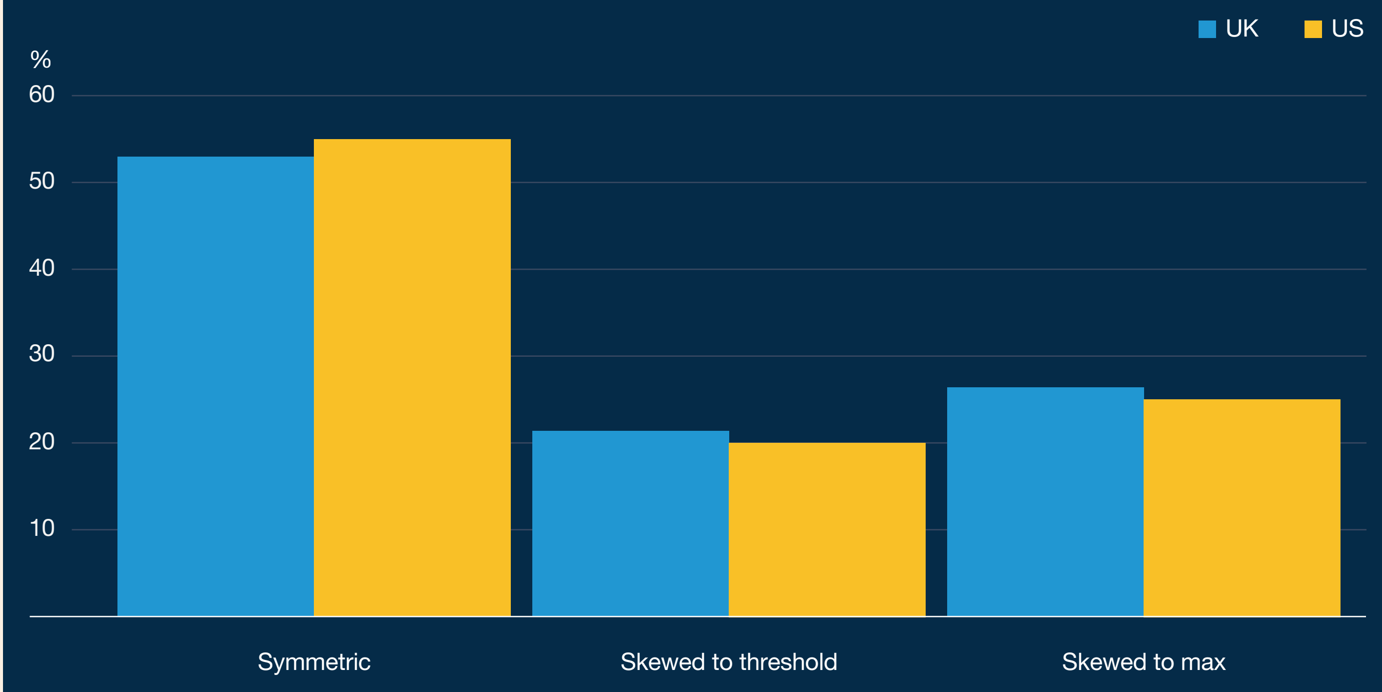
UK VS US TARGET-SETTING MARKET PRACTICE

SYMMETRY OF RANGES – SIMILAR IN THE UK AND US

A ‘symmetrical’ range is defined as having the same percentage distance from Target to Maximum as from Target to Threshold (e.g. ±10% around the Target). This is the most common approach in both the UK and the US.

Some companies adopt a ‘skewed’ approach, where the percentage distance between Target and Maximum is different from that between Target and Threshold. Again, market practice is similar in both the UK and US.

Symmetry of ranges at UK and US companies



IMPLIED GROWTH IN TARGET RANGES

The implied level of growth in the target ranges (i.e. the percentage difference between the prior year's actual performance and the Threshold, Target, and Maximum targets) can be calculated. Typically, there is a wide range of practices across the market, reflecting differences in business models and trading environments. The methodological caveats of this analysis should also be noted (see page 21). The table below compares the median growth rates at the Threshold, Target, and Maximum points in the UK and US markets.

- The level of growth at Target is the same in both markets (3%).
- The level of growth at Maximum payout is higher in the US (15%) compared to the UK (9%).
- Conversely, the level of growth at Threshold payout is lower in the US (-11%) than in the UK (-2%).

This finding aligns with the earlier analysis of range 'width'. US companies tend to use wider ranges, which result in a more challenging target for Maximum payout, combined with a more achievable target for Threshold payout.

Implied growth (median)	**UK**	**US**
Maximum	9%	15%
Target	3%	3%
Threshold	-2%	-11%

RELATIVITY TO CONSENSUS FORECASTS – SET CLOSER TO TARGET IN THE US

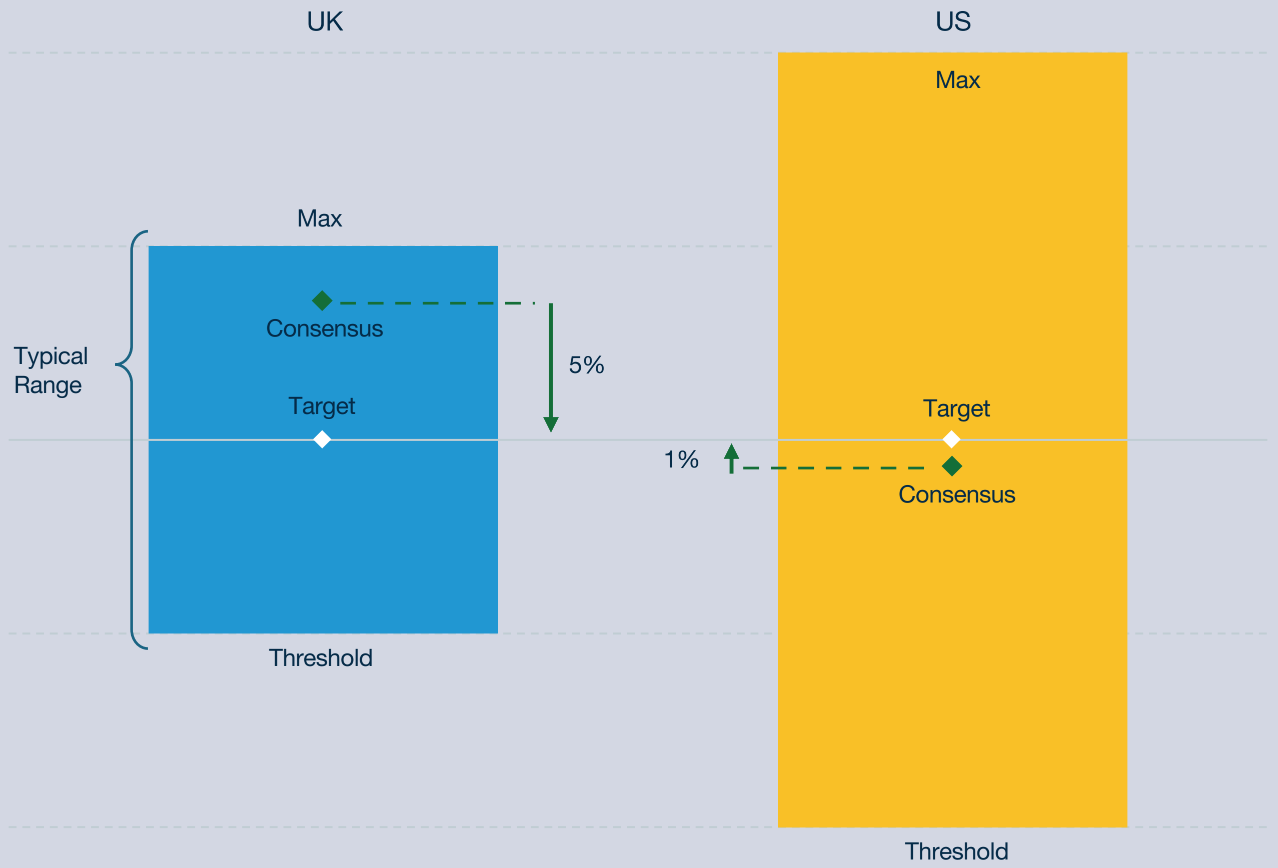
When calibrating bonus targets, market expectations for the company's performance typically serve as an important reference point. Remuneration committees often evaluate how performance ranges compare to Consensus (e.g. the average estimate from the company's sell-side equity analysts).

A detailed assessment of market practice for UK-listed companies was included in our 2024 report. The associated caveats should be reviewed (see page 27).

Comparing the positioning of the UK and US samples, the analysis reveals that, on average, the Target point within the range is set closer to the consensus forecasts in the US than in the UK.

- The average US company (based on the median) positioned Target 1% above consensus.
- In contrast, the average FTSE 100 company positioned Target 5% below broker consensus.

Illustration of typical position of consensus relative to Target



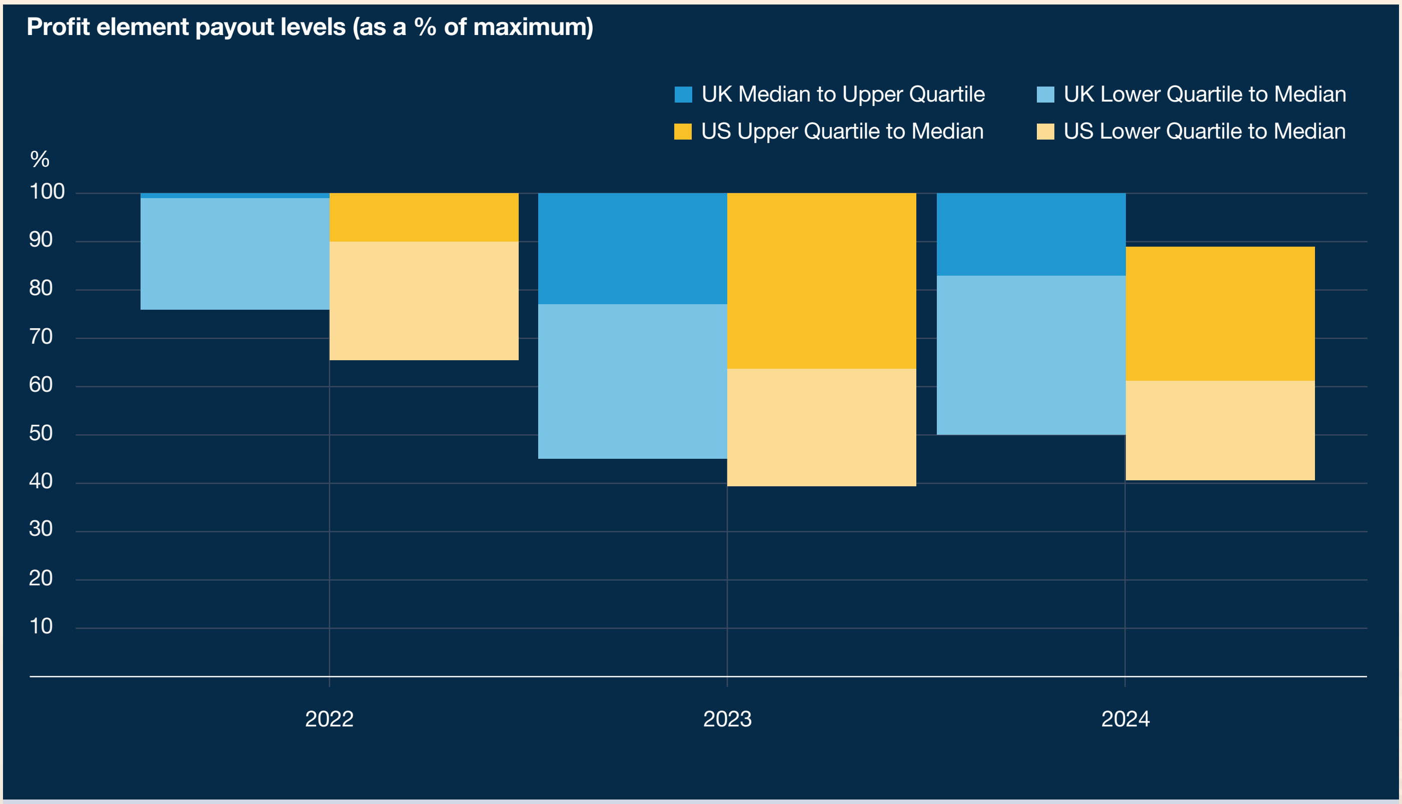
83%
positioned the profit target below broker consensus

43%
positioned the profit target below broker consensus

PROFIT ELEMENT PAYOUT LEVELS (AS A PERCENTAGE OF MAXIMUM) – TYPICALLY LOWER IN THE US

In general, the level of payout (as a percentage of maximum) from the bonus profit element is lower in the US compared to the UK. This is consistent with our earlier findings, such as the US tending to use wider profit ranges.

However, it is also important to consider the potential interaction with the differences in award quantum between the two markets. Award opportunities are generally higher in the US, enabling companies to achieve a market competitive overall compensation level with incentive outcomes which are closer to target. For companies in the UK where incentive opportunities may have been more constrained, then higher pay-out levels (as a percentage of maximum) may have been necessary in order for total compensation outcomes to have been considered market competitive. For UK companies that increase incentive award opportunities to better align with the US market, some might consider it reasonable to expect that payout levels will also begin to align more closely with US practices.



Profit element payout levels (as a % of maximum)

	2022		2023		2024	
	UK	US	UK	US	UK	US
0% payout	1%	0%	13%	10%	12%	9%
100% payout	67%	45%	33%	29%	37%	19%

ANNUAL BONUS

TYPICAL LEVELS OF PAY-OUT IN THE MARKET

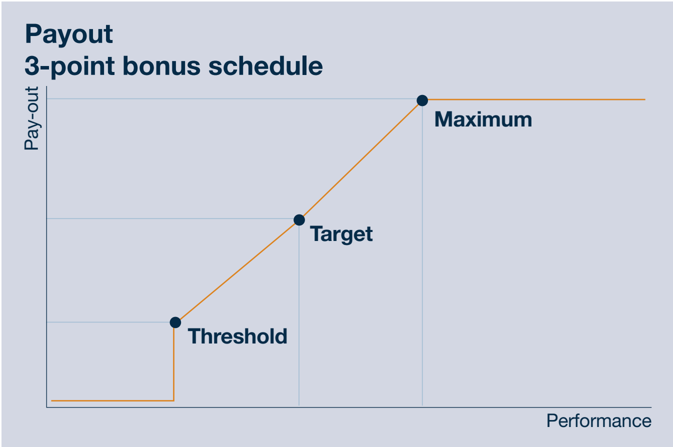
Most companies in the FTSE All-Share continue to disclose the use of a 3-point schedule, with payouts for Threshold, Target and Maximum performance levels (although these may sometimes be labelled differently).

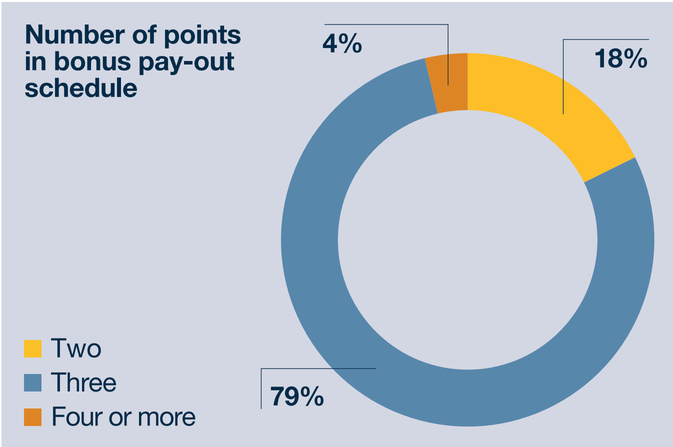
Typically, payouts are calculated on a straight-line basis between those points. Around a quarter (18%) of the market disclose a 2-point schedule, which includes only Threshold and Maximum points.

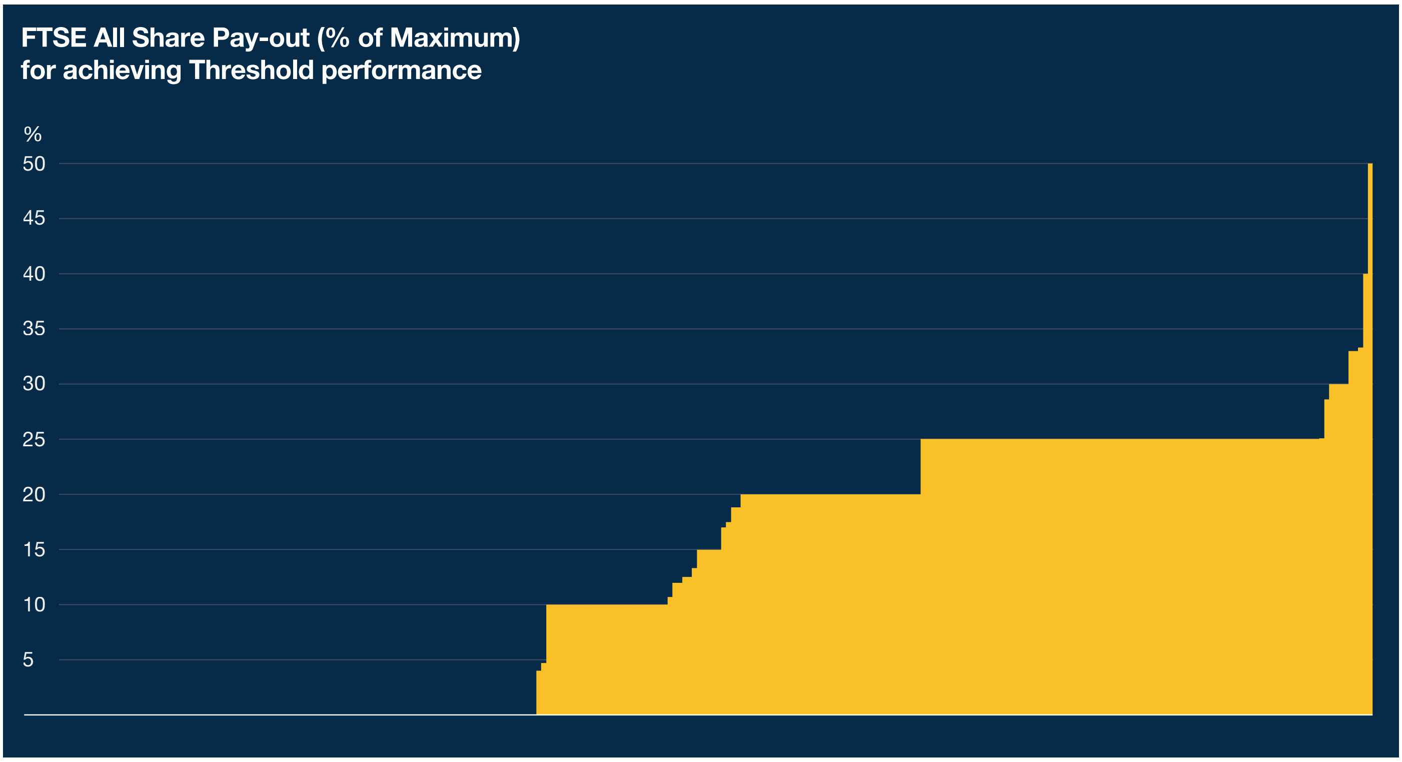
There is significant variation in payout levels for achieving Threshold performance, as shown in the chart below (with each bar representing one company across the full market.) The median payout is 20% of maximum, although the two most common approaches remain 0% and 25% of Maximum.

During the year, 23% of the market made a change to the amount payable for Threshold performance. These changes were split broadly equally between companies increasing and decreasing the payout level.

For achieving Target performance, the vast majority of companies pay out 50% of the maximum, in line with shareholder guidance. However, a handful of companies have retained a higher level of payout.







ANNUAL BONUS
WIDTH OF PROFIT RANGES

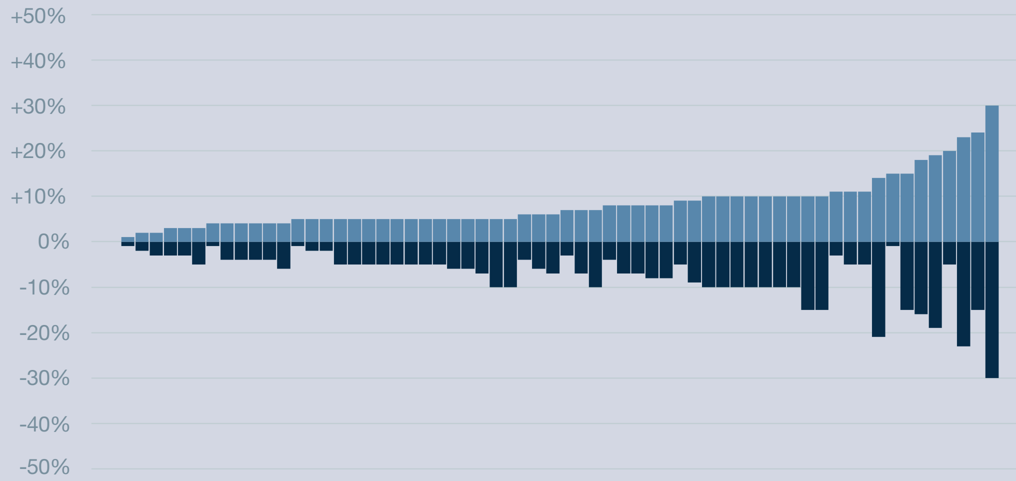
For companies using a 3-point schedule, the charts below illustrate market practice for the range of Threshold and Maximum around the Target point (with each bar representing one company)[1].

As expected, there is a wide range of practice, reflecting different levels of uncertainty and volatility across businesses and sectors. Larger companies tend to have narrower ranges compared to smaller companies, as shown in the charts.

FTSE 100

	Median	Quartile range
This Year	7%	5-10%
Prior Year	5%	5-10%

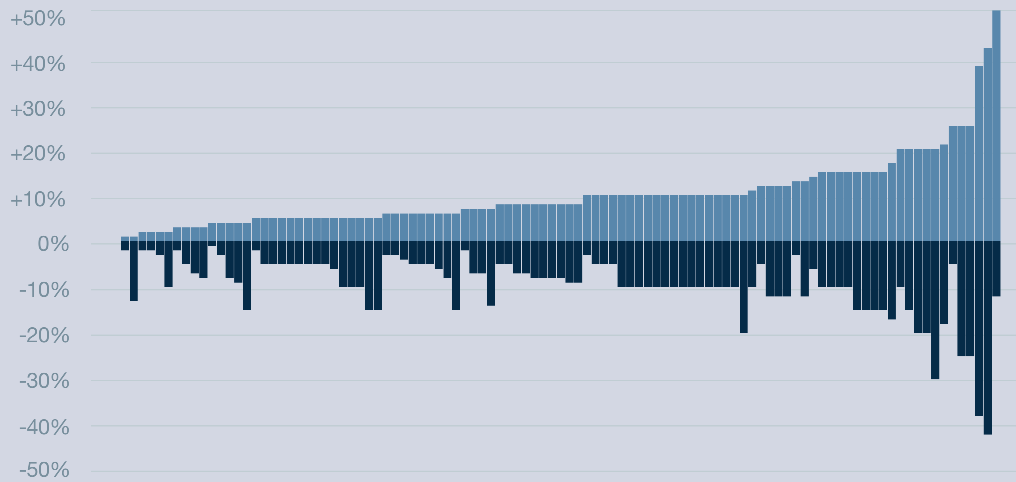
Target to Max
Threshold to Target



FTSE 250

	Median	Quartile range
This Year	8%	6-12%
Prior Year	9%	5-11%

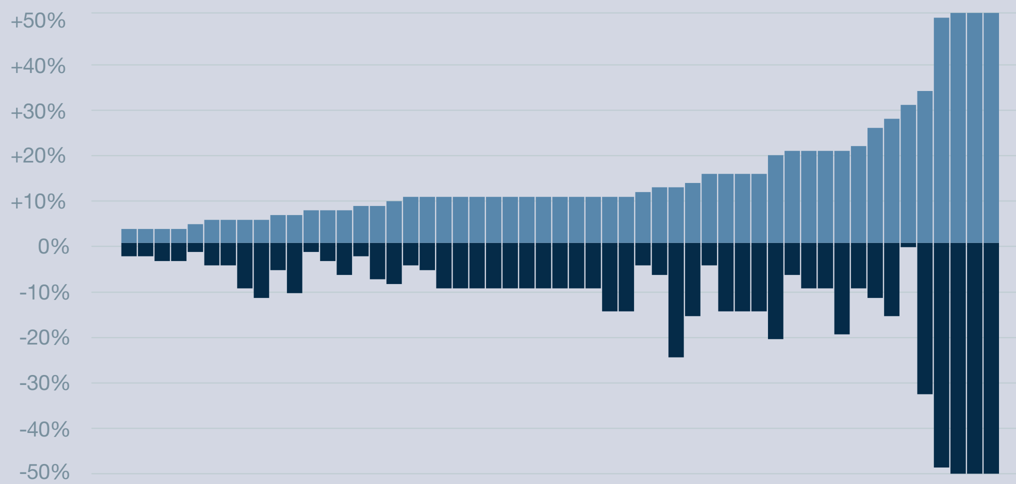
Target to Max
Threshold to Target



FTSE Small Cap

	Median	Quartile range
This Year	10%	8-15%
Prior Year	10%	5-16%

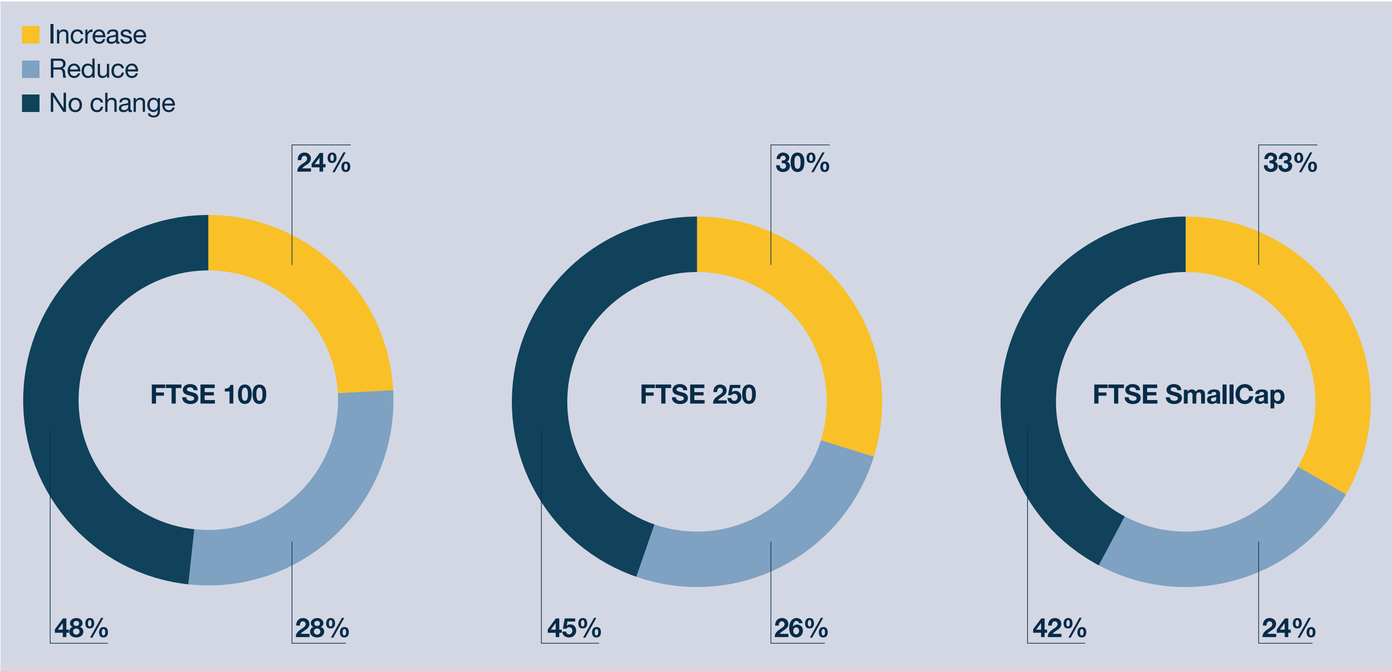
Target to Max
Threshold to Target



1 For example, if a bar shows a +10% above the axis and a -10% below the axis, then the Maximum is 10% above Target, and the Threshold is 10% below Target.

ANNUAL BONUS
WIDTH OF PROFIT RANGES

In the previous year, there was a clear trend, across all market segments, towards narrowing profit target ranges. However, during the current year, the number of companies increasing or reducing the profit range width has been broadly similar. This has resulted in little annual change in the typical profit range width, except within the FTSE 100, where the median profit range width has increased.



ANNUAL BONUS
'SYMMETRY' OF PROFIT RANGES

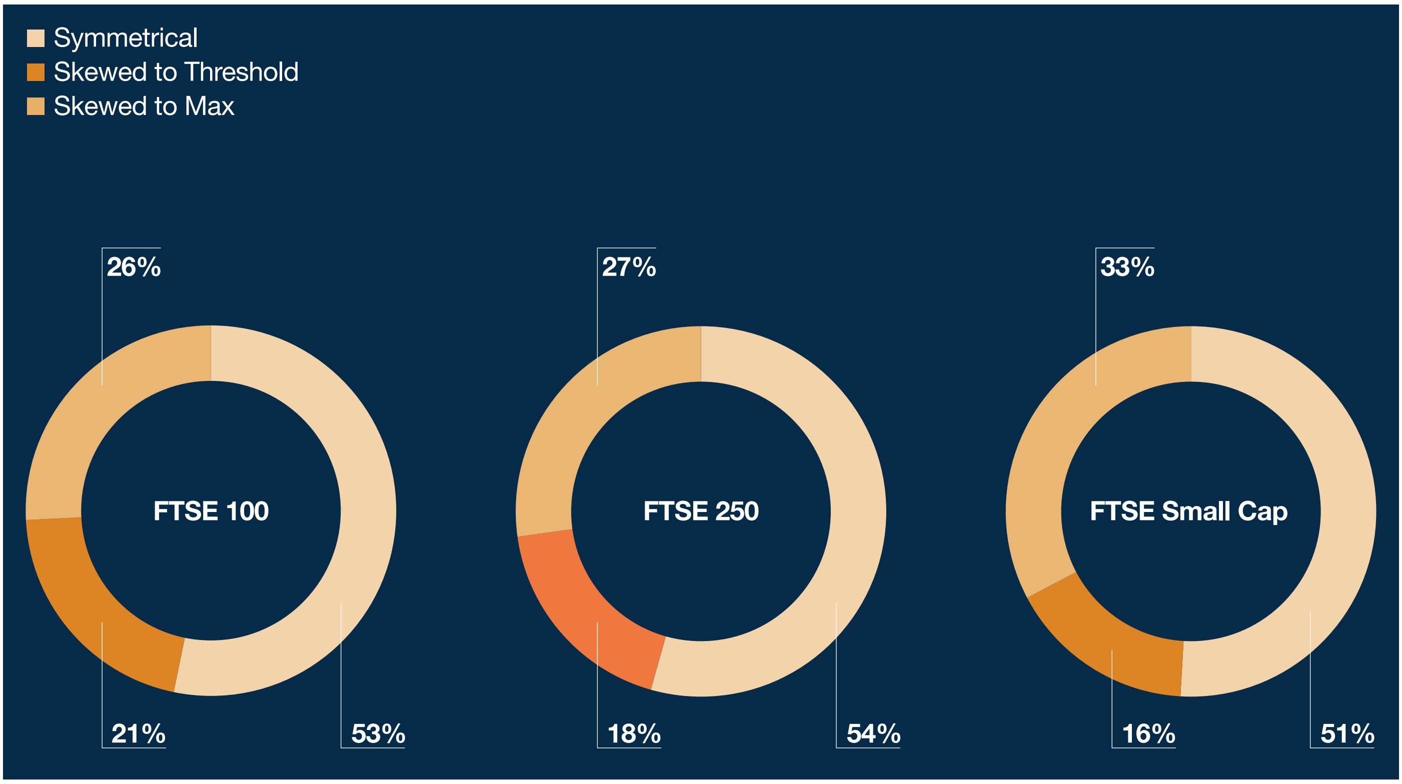
As shown in the previous charts, companies adopt different approaches to the 'symmetry' of profit ranges around the Target point. There are three main alternatives:

The rationale behind these different range designs often depends on various factors specific to the given year. For example:

- The perceived level of stretch in the Target level, which is often, but not always, directly linked to the company's agreed budget.
- The extent of upside and downside risks to expected performance.

As the charts below show, a simple symmetrical range remains the most common. However, around half the market employs a 'skewed' approach, with the targets most commonly skewed towards the maximum end of the range.

In the case of skewed ranges, it is relatively common for the skew to appear to follow a 'rule of thumb' in the calibration process. For example, the upside skew may be calibrated to be exactly double (or half) the downside value.



ANNUAL BONUS
IMPLIED LEVEL OF GROWTH IN PROFIT RANGES

Most profit targets are disclosed as monetary values, but these can be converted into an implied percentage growth rate from the prior year's actual performance. These growth rates are illustrated in the charts, with each bar representing the target range (from Threshold to Maximum) for one company. The caveats to this data should be noted[2].

There is a wide range of implied growth levels in the market data, which is to be expected given different sectoral exposures to growth and/or company specific factors for any given year.

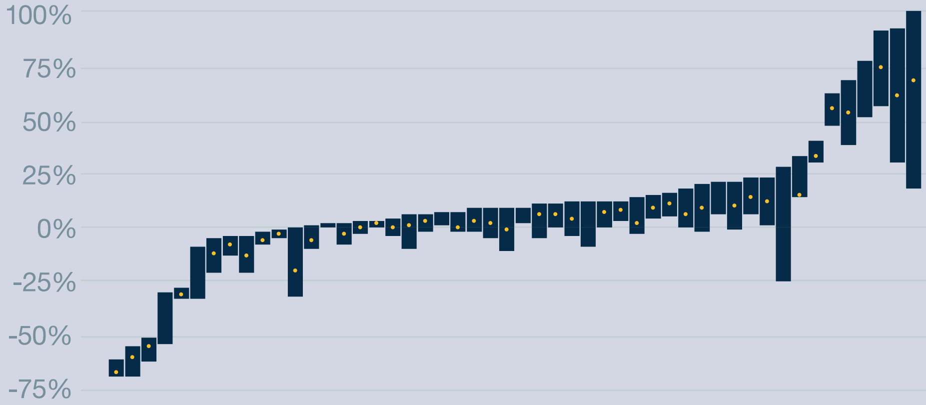
Implied growth levels were generally lower than the prior year, potentially reflecting a more pessimistic view of the market across all sectors. It can also be seen that greater levels of growth are generally required in smaller companies.

Many companies will often consider positioning the Threshold above the prior year actual (i.e. to ensure some year-on-year growth is delivered before bonus starts to accrue.) However, the data show a sizeable portion of the market set Threshold (and in some cases even Target and Max) below the prior year actual outcome.

FTSE 100

Implied growth (median)	Current Year	Prior Year
Maximum	9%	10%
Target	3%	7%
Threshold	-2%	0%

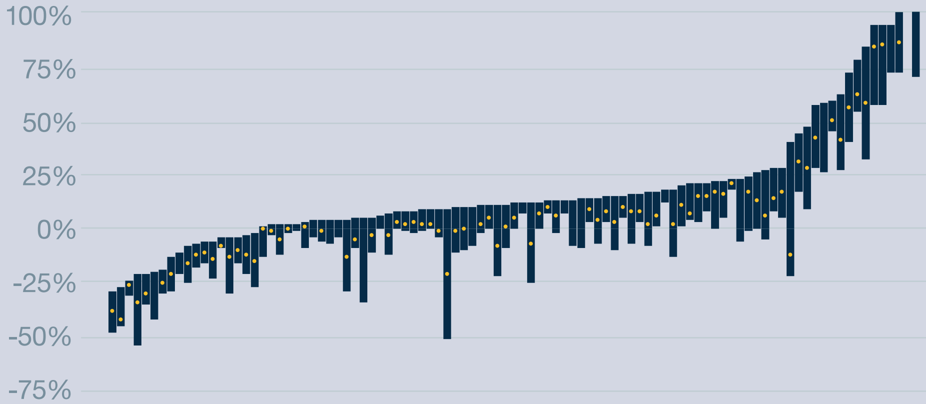
Bonus Range
Target



FTSE 250

Implied growth (median)	Current Year	Prior Year
Maximum	12%	14%
Target	2%	5%
Threshold	-3%	0%

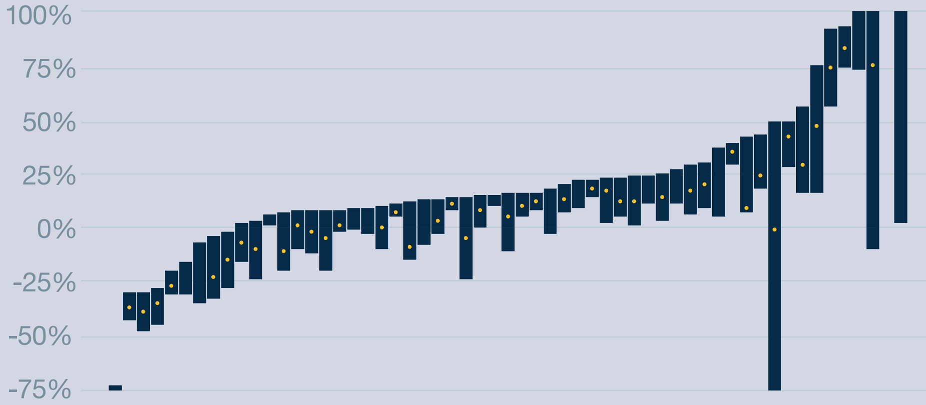
Bonus Range
Target



FTSE Small Cap

Implied growth (median)	Current Year	Prior Year
Maximum	16%	18%
Target	10%	7%
Threshold	1%	2%

Bonus Range
Target



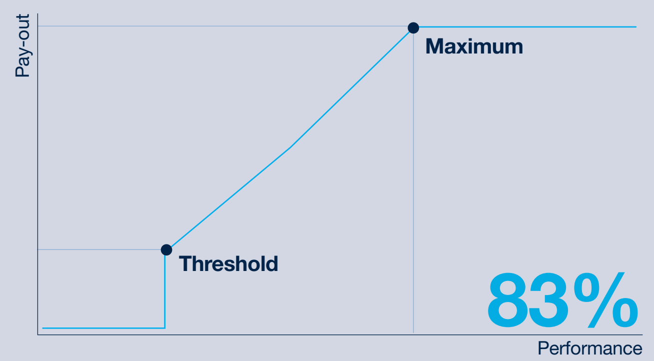
2 Some companies with very high implied growth rates cannot be displayed on the charts given the scale of the y-axis

LTIP
VESTING SCHEDULE

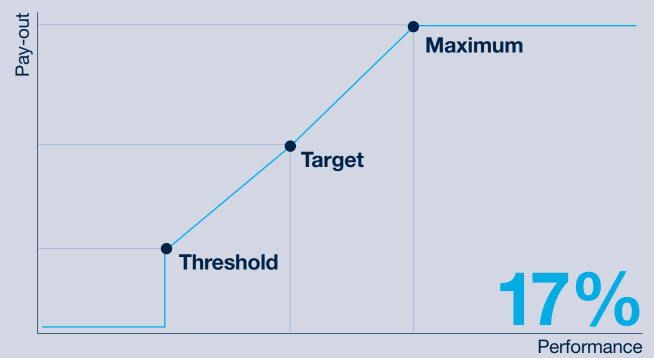
In contrast to the annual bonus, most companies use a 2-point vesting schedule for Long-Term Incentive Plan (LTIP) awards. This schedule includes defined parameters for Threshold and Maximum, with straight-line vesting between these points. A minority of companies operate a schedule with one (or more) additional points, often including a Target.

For meeting Threshold performance, it is very common for 25% of the maximum award to vest, with nearly three quarters (69%) of the market adopting this approach. Some companies use a lower vesting amount, often 15% or 20% of the maximum. However, unlike the annual bonus, nil vesting at Threshold is relatively unusual, observed in only 5% of the market.

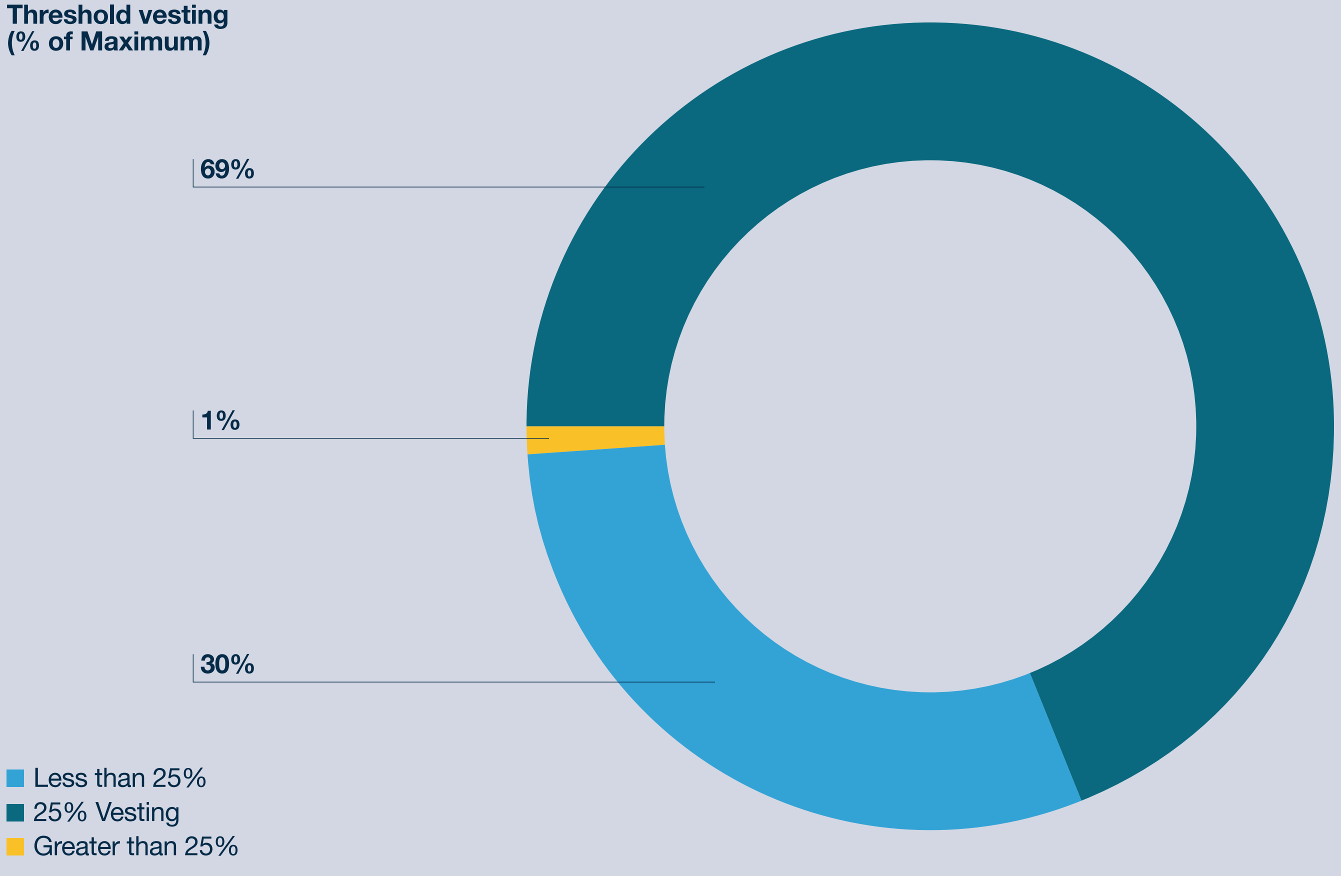
Two point LTIP schedule



Three (or more) point LTIP schedule



Threshold vesting (% of Maximum)



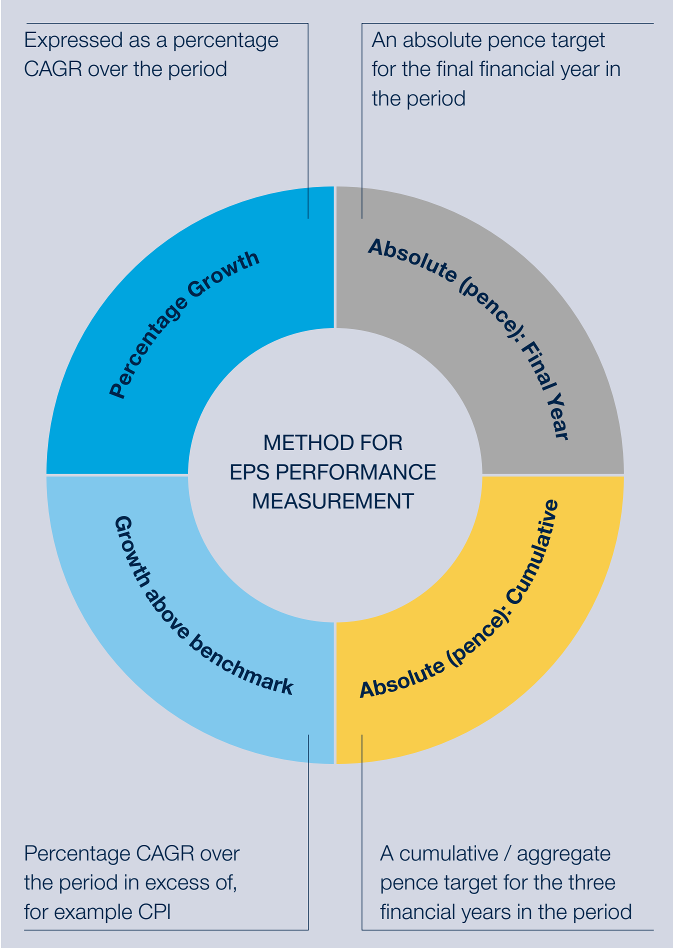
LTIP
BASIS FOR MEASURING EPS PERFORMANCE

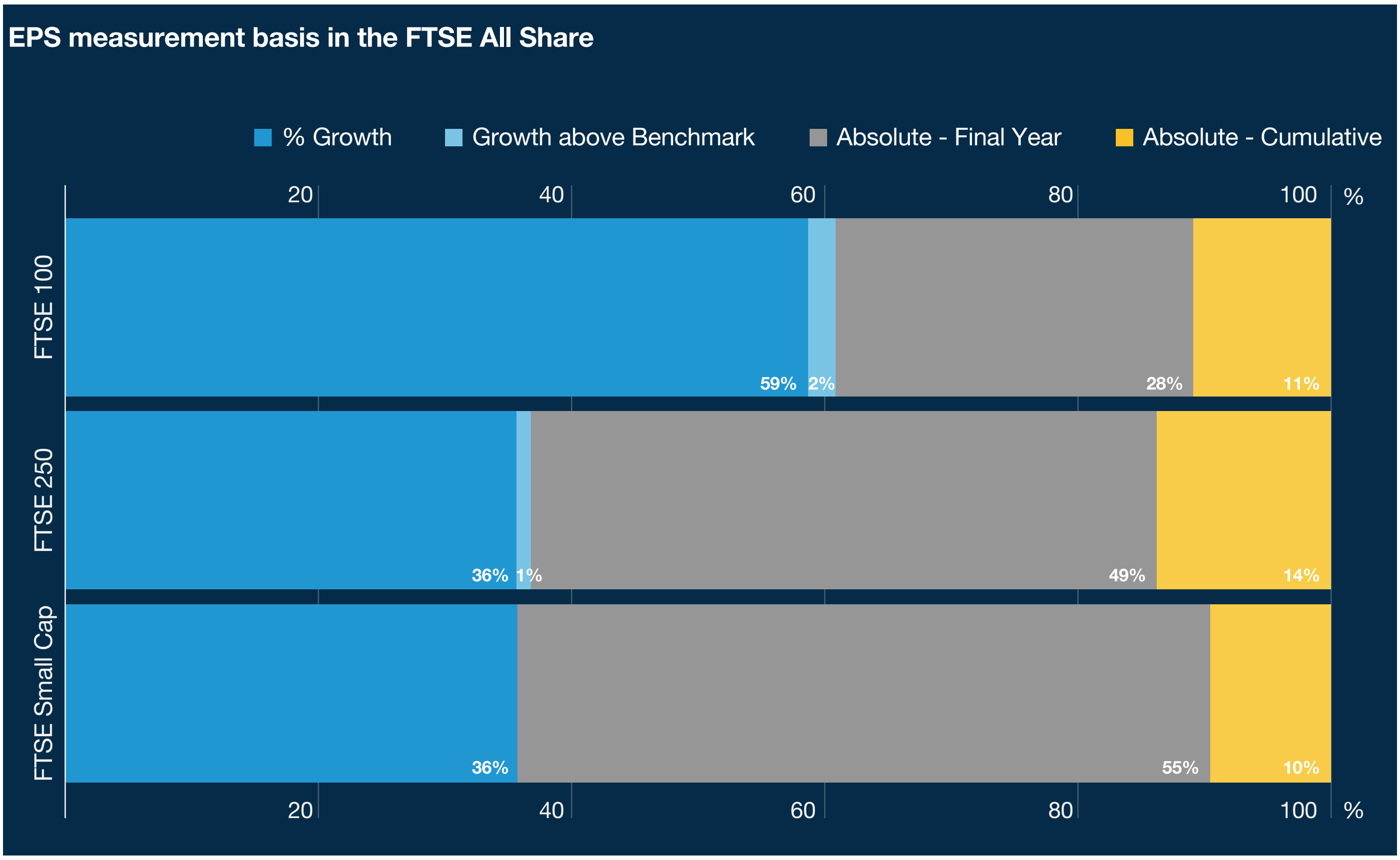
For profit targets within the LTIP, around 90% of companies use Earnings Per share (EPS) as the primary profit metric.

There are different approaches for calibrating and disclosing the targets, with very mixed market practice, as shown in the charts.

Key observations:

- The previously ‘conventional’ approach of disclosing targets as a percentage growth rate remains the most common approach in the FTSE 100, but is now a minority practice in the FTSE 250 and Small Cap. However, this approach was adopted by a number of Small Cap companies during the year with the number of companies adopting this approach increasing from 27% to 36%.
- Measuring growth relative to a benchmark (such as CPI or RPI) is now very unusual, particularly in smaller companies, and has continued to decline in prevalence year on year.
- In the FTSE 250 and Small Cap, it is more common for targets to be expressed on an absolute (pence) basis.





LTIP
PROFIT TARGET RANGES (CAGR %)

The charts illustrate the range of market practices for profit target ranges in LTIP awards, with each bar representing the target range (from Threshold to Maximum) for one company. Assumptions and caveats related to this data should be noted[3].

There is a wide range of targeted growth levels in the market data, which is to be expected given different sectoral exposures to growth; and/or, company specific factors for any given year.

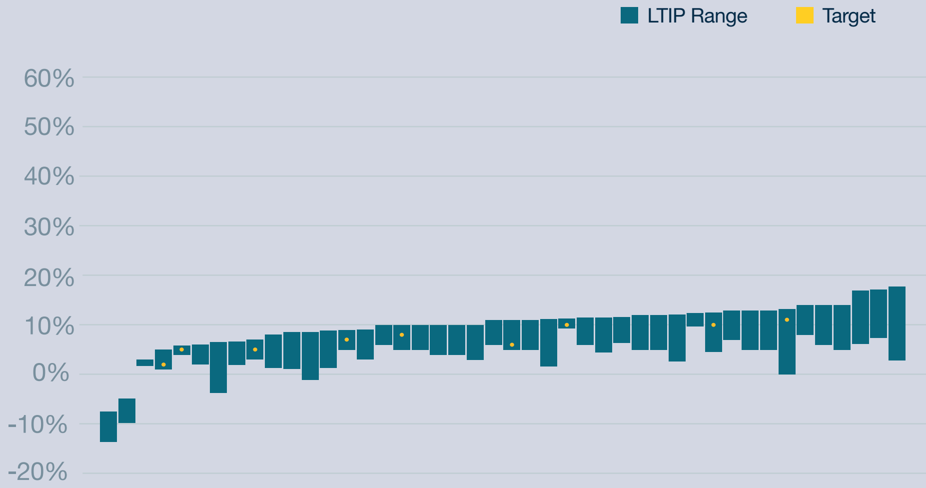
The median growth level required for Threshold vesting (i.e. 4-5 %) is broadly consistent across all three market segments (FTSE 100, FTSE 250, and Small Cap) and remains largely unchanged compared to last year.

In the Small Cap segment, there is a broader range of expected performance, with Maximum performance levels continuing to be set higher compared to those in the FTSE 100 and 250.

FTSE 100

Current Year	LQ	Med	UQ
Maximum	9%	11%	12%
Threshold	2%	5%	5%

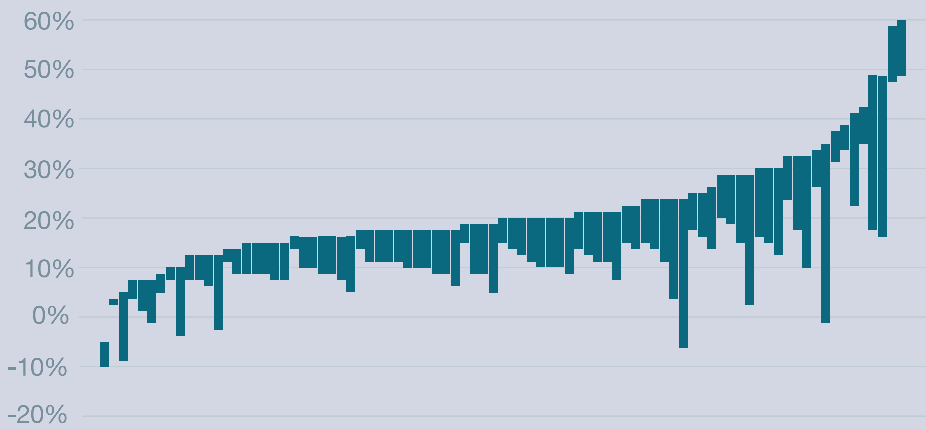
Prior Year	LQ	Med	UQ
Maximum	7%	10%	12%
Threshold	1%	5%	6%



FTSE 250

Current Year	LQ	Med	UQ
Maximum	9%	12%	16%
Threshold	2%	4%	8%

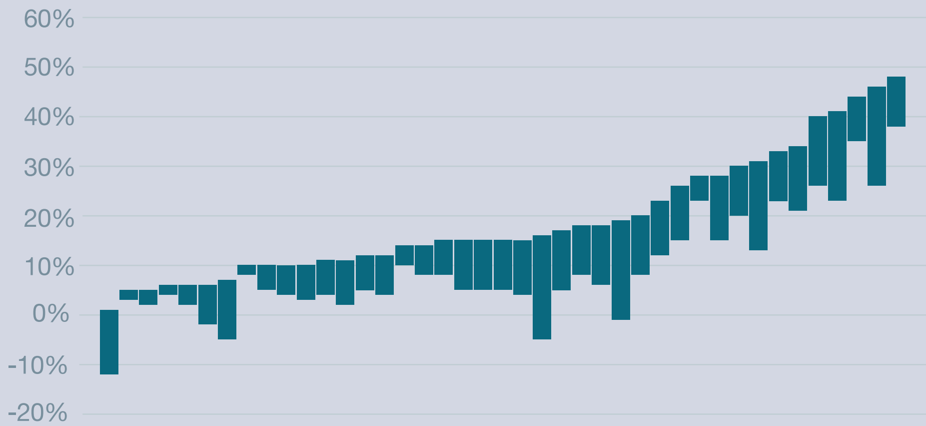
Prior Year	LQ	Med	UQ
Maximum	10%	11%	14%
Threshold	3%	5%	7%



FTSE Small Cap

Current Year	LQ	Med	UQ
Maximum	10%	15%	25%
Threshold	3%	5%	13%

Prior Year	LQ	Med	UQ
Maximum	9%	15%	24%
Threshold	3%	5%	19%



3 Some companies with very high implied growth rates cannot be displayed on the charts given the scale of the y-axis

ABOUT A&M

YOUR STRATEGIC PARTNER FOR EXECUTIVE COMPENSATION

Our growing UK Executive Compensation Services advisory practice comprises four senior practitioners with over 100 years' combined experience, supported by a team of both experienced professionals and graduates.

We can provide a full suite of services, advice and support to Remuneration Committees and HR or reward teams as shown below.

We can provide full support through all stages of the preparation and review of the DRR, ensuring both technical compliance and effective commercial communication.

Our objective is to support the design of a reward strategy and policy framework that is tailored to the business rather than an 'off-the-shelf' solution.

We can provide market data and insights for non-executive directors and executive directors in the U.K.

Our integrated practice provides access to share plan and tax experts to provide full support through the implementation phase.

We have a wealth of experience in supporting companies in this increasingly challenging area – from developing a tailored strategy and preparing materials to interpreting feedback.

We can support businesses in all aspects of incentive plan design and implementation, including determining performance measures, calibrating targets, and assessing outcomes.

ABOUT A&M

YOUR STRATEGIC PARTNER FOR EXECUTIVE COMPENSATION

One of our market differentiators is that we are a ‘senior practitioner-led’ practice, meaning that our Managing Directors take a more ‘hands-on’ and visible role in client relationships than is often the case in other consulting practices. As a strategic partner to the business, our approach is as follows:

BESPOKE ADVICE, TAILORED TO THE BUSINESS

Our objective is to help clients design and implement remuneration that is tailored for their business, rather than market standard that ‘ticks the boxes.’

COLLABORATIVE…

As a strategic partner, we aim to work closely in partnership with management teams to understand key objectives, priorities and constraints, which inform our ability to provide tailored and balanced advice.

…BUT INDEPENDENT AND TRANSPARENT

At the same time, we always recognise our ultimate accountability to provide an independent and objective view to the remuneration committee. At all times, we act with integrity and transparency in our interactions with stakeholders.

FACILITATE STRATEGIC DECISION-MAKING

We help the committee assess options strategically in the context of the board’s ‘risk appetite,’ and are recognised for a pragmatic and commercial approach that balances key stakeholder perspectives.

OPTIMISE OUTCOMES

Once decisions are made, we provide effective support to optimise stakeholder outcomes. We add value through all stages of the shareholder engagement process – developing strategy, creating effective materials, and interpreting feedback.

END NOTES

1 Implied growth rate calculation
Calculating an implied growth rate requires comparing the disclosed bonus targets with the disclosed prior year actuals for the same performance measure. However, these figures are often not directly comparable for several reasons, including:

- Currency or price adjustments.
- Mergers and acquisitions (M&A).
- Specific adjustments for bonus plan purposes.

Every effort has been made to ensure the figures used are as comparable as reasonably possible. Instances where data is considered insufficiently reliable have been excluded.

2 Comparison with consensus
The Comparison with consensus is based on:

- The implied growth rate in the company's bonus range (see note 1 above).
- The implied growth rate in prevailing consensus estimates.

Consensus data is sourced from Datastream, taken approximately two months into the company's relevant financial year (assumed to be broadly consistent with when bonus targets are set). The Consensus data is matched to the company's profit metric used in the bonus calculation.

A number of exclusions have been made for reasons such as:

- Lack of available data.
- Mismatch between metrics.
- Significant anomalies or outliers.

3 LTIP targets
The most recently disclosed LTIP targets are used, typically based on prospective disclosures for the forthcoming LTIP awards. If this is unavailable, data from the LTIP awards made during the year are used. All profit targets are included.

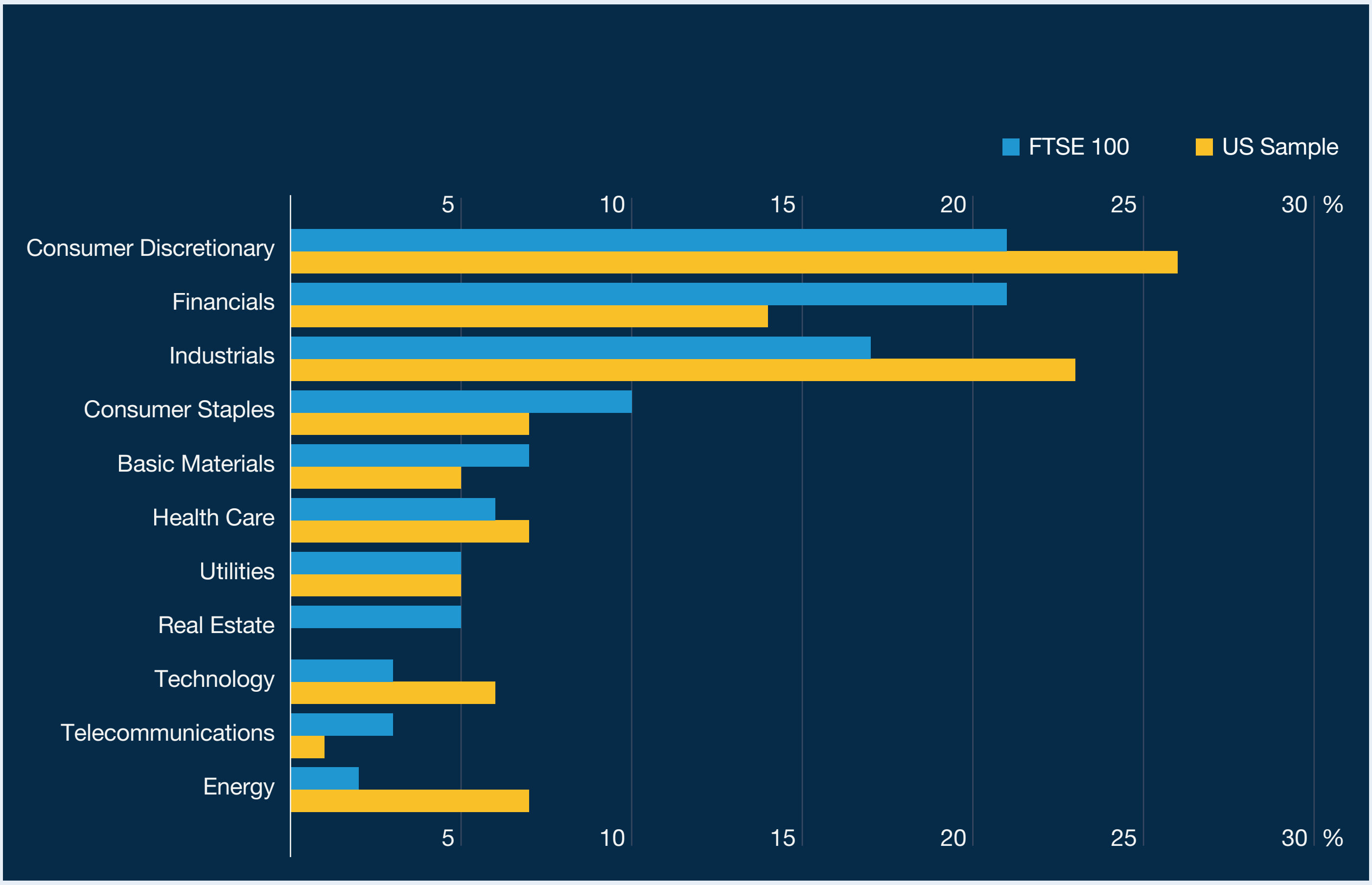
- For absolute (pence) values, an implied growth rate is calculated using a base year. Similar to note 2, figures may not be directly comparable due to adjustments like M&A, inflation, or market changes.
- If targets are disclosed as cumulative pence values, the implied growth rate reflects the constant rate of growth required to achieve the cumulative targets over the performance period.
- Where EPS targets are set relative to a benchmark (e.g. inflation or market growth), these have been converted to absolute growth using a simplified assumption of 3% per annum.

Every care has been taken to ensure comparability, and data deemed insufficiently reliable have been excluded.

4 US sample for Analysis
The US sample includes 102 companies drawn from the S&P 1500, chosen for their similarity to the FTSE 100 in terms of:

- Market capitalisation: Average of £8.8bn (US) compared to £8.6bn (FTSE 100).
- Revenue: Average of £7.0bn (US) compared to £6.5bn (FTSE 100).

Further details on the sectors in the US sample and the FTSE 100 are provided below.



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ABOUT ALVAREZ & MARSAL

Founded in 1983, Alvarez & Marsal is a leading global professional services firm. Renowned for its leadership, action and results, Alvarez & Marsal provides advisory, business performance improvement and turnaround management services, delivering practical solutions to address clients' unique challenges. With a world-wide network of experienced operators, world-class consultants, former regulators and industry authorities, Alvarez & Marsal helps corporates, boards, private equity firms, law firms and government agencies drive transformation, mitigate risk and unlock value at every stage of growth.

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