Introduction

Working Successfully With Your Board of Directors

- Global Equity Organization Webinar
- March 12, 2014

Presented by:

<table>
<thead>
<tr>
<th>Greg Loehmann</th>
<th>Kat Carlo</th>
<th>Stuart Finkelstein</th>
<th>Dennis Paalman</th>
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<tbody>
<tr>
<td>Compensia</td>
<td>Coty Inc.</td>
<td>MasterCard</td>
<td>Royal Ahold</td>
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<td>• Principal</td>
<td>• Sr. Director, Global &amp; Executive Compensation</td>
<td>• VP, Executive Compensation</td>
<td>• Global Head of Compensation and Benefits</td>
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Committee Decision-Making
Committee Decision-Making

Key Items
- Executive compensation decisions
- Incentive plan design
- Severance/change of control program
- Executive new hire arrangements
- Equity utilization/plan amendments
- Broad-based benefits
- Other examples?

Managing the Process
- Establishing roles and responsibilities
- Setting the agenda
- Working with outside advisors
- Using time effectively
- Incorporating the CEO’s perspective

Achieving Consensus
- Presenting market context
- Modeling the impact
- Communicating internally
- Gaining approval

Potential Pitfalls
- Working through disagreement
- Dealing with surprises
- Rebounding from analytical mistakes
- Covering the legal perspective

General Dos and Don’ts

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Trends and Regulatory Change
What is HR’s role in ongoing Committee education?
When is the right time to raise an issue?
What level of detail is optimal?
Trends and Regulatory Change: CEO Pay Ratio Rule

- In September 2013, the SEC proposed rules to implement Dodd Frank requirement for disclosure of the relationship between CEO pay and median employee pay
- Disclosure requirement expected for 2015 compensation (i.e., included in early 2016 disclosure)
- Final rules and market approaches expected to evolve during upcoming ~12-24 month time horizon

Key aspects of proposed rules are as follows:
- Companies will be permitted to select a methodology that is appropriate to the size and structure of their own business and the way they compensate employees
- “Total compensation” is to be calculated using the same rules that are applied for determining the total compensation for proxy disclosure purposes
- Companies will be required to consider the compensation of all employees, including full-time, part-time, temporary, seasonal and non-U.S. employees, of the company and any subsidiaries
- Companies will be required to briefly disclose the methodology used to identify the median and any material assumptions, adjustments, or estimates used
- Disclosure requirement expected for 2015 compensation (i.e., included in early 2016 disclosure)
Trends and Regulatory Change: Realized/Realizable Pay

**Issues to Address**
- What are the variations?
- Why would we do this?
- What is the market doing?
- What should we do?

**Realized Pay: Equity Value**
- For awards vesting or exercised during the lookback window, regardless of the grant date...
  - Options: Actual gain realized upon exercise
  - RSUs: Actual value realized on vesting date
  - PSUs/MSUs: Actual value realized on date earned and vested

**Realizable Pay: Equity Value**
- For awards granted during the lookback window but unvested/unexercised at the measurement date....
  - No value attributed to realized pay
- For awards granted and earned during the lookback window...
  - Options: Actual gain realized upon exercise or as of measurement date
  - Full value shares: Value realized on vesting date or at end of measurement period

**Realized and Realizable Pay: Cash Value**
- Base Salary
- Actual Bonus Paid
- Other Comp (ISS method)
- Change in pension / NQDC (ISS method)
What is the best approach for addressing ISS methodologies and analysis?

Market capitalization (in millions)
Companies are classified into market capitalization buckets as follows:

<table>
<thead>
<tr>
<th>Bucket</th>
<th>Low end</th>
<th>High end</th>
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<tbody>
<tr>
<td>Micro</td>
<td>0</td>
<td>200</td>
</tr>
<tr>
<td>Small</td>
<td>200</td>
<td>1,000</td>
</tr>
<tr>
<td>Mid</td>
<td>1,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Large</td>
<td>10,000</td>
<td>No cap</td>
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While ISS may choose peers that fall outside a subject company’s market cap bucket if necessary to reach a minimum peer group size, none may have a market cap of less than 0.25 times the low end or more than 4 times the high end of the subject’s market capitalization bucket.