
Remuneration of Management Board and Supervisory Board members at key listed companies in 2014

How does remuneration of Management Board and Supervisory Board members change?



The remuneration of Management Board members at companies with a significant share of the State Treasury are becoming equal to those operating in the private market

Disparities between remuneration of women and men among top executives are still significant

The relatively non-aggressive approach towards shaping the top executives' remuneration structure still dominates

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Introduction

PwC has been publishing reports on remuneration of Management Board members of key listed companies for six years now. Since 2011, we have also been analysing trends in remuneration of Supervisory Board members. In this report for the first time you will find the information about the level of remuneration of both these groups.

The purpose of presenting two phenomena in one report is a comprehensive analysis of remuneration for management and supervision in Polish key listed companies. We take a look at trends in both groups and factors determining the remuneration level. We are talking not only about the value, but also about the very structure of remuneration package or correlation between its level and other elements, such as the company's size, ownership structure or demography.

Today the levels of remuneration of Management Board and Supervisory Board members are two different worlds. We encourage you to take a look at them and consider whether the effectively operating Supervisory Board of the company should earn as much as eleven times less than the company's Management Board? It seems that while high remuneration levels of Management Board members are generally accepted despite numerous controversies or social criticism, there is a lack of such confidence as regards chairpersons and members of Supervisory Boards. High compensations of Management Board members are justified by the necessity to attract to the Management Board top class, so best remunerated professionals. Do key listed companies in Poland and their shareholders already see the same value in Supervisory Boards? As results from the presented list, among ten companies offering the highest pay to their Supervisory Boards are both WIG 80, WIG 40 and WIG 20 companies. Their boards consists of former co-owners, founders and CEOs. Their remuneration levels are similar to those achieved in case of remuneration of Management Boards – except CEOs.

We hope that the data published in this report will provoke you to reflect on the relation between the remuneration of the Management Board and the Supervisory Board in companies. It is worth to consider these phenomena in the context of attracting executives and supervisory personnel to major Polish companies and keeping them motivated. Another issue for consideration is potential succession, i.e. moving from the function of CEO or a Board Member to the role of a chairperson or member of the Supervisory Board and significance of the remuneration level in this process.

Indeed, Management Boards and Supervisory Boards are two different, but interpenetrating and interdependent worlds. After all, the Management Board and the Supervisory Board should play football with only one goal. Even if some are responsible for the game on the field, and others observe and evaluate the game. We hope that considering both phenomena together will allow to promote a new way of thinking about remuneration of Supervisory Board and Management Board members in the context of their mutual relations and trends. We also believe that the application by companies of new remuneration policy rules codified in the Code of Best Practices will contribute to further professionalisation of management and supervision and, as a consequence, to the increase of the value of companies listed on the Warsaw Stock Exchange.

We wish you inspiring reading!

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About the survey

This report is a summary of the survey on remuneration of Management Board members at key listed companies conducted by PwC in 2014.

The main conclusions concern trends in remuneration of Management Board members, as well as changes in the structure of the remuneration package and remuneration levels that occurred between 2013 and 2014. Additionally, the report has been extended by the results of the analysis of the remuneration level of Supervisory Boards of those companies and factors differentiating this level.

The survey covered companies from three stock exchange indices: WIG20, mWIG40 and sWIG80 according to the composition of these indices as at 31 December 2014¹. Financial statements and reports of Management Boards on the companies' activities for the years covered by the survey constituted a source of data on remuneration. The results of the analysis of data were commented by PwC experts providing advice concerning remuneration of top executives.

Depending upon the quality of disclosed data, individual analyses presented in the report covered the whole survey sample or its part. Detailed information on the approach taken was included in the Appendix, "Survey methodology" section.

The report consists of four main parts:

- 1. Changes in remunerating of top executives** – a part describing changes in remuneration as compared to the previous year, observed by PwC experts, and expected future trends.
- 2. Remuneration package elements** – a part presenting conclusions from the survey regarding the typical components of the system of remunerating Board Management members.
- 3. Remuneration levels** – a part presenting the results of the PwC analyses of the value of remuneration package for Management Board members of listed companies in 2014 depending upon various factors differentiating its level.
- 4. Remuneration levels of Supervisory Board members** – a part presenting the results of the PwC analyses of the value of remuneration package for Supervisory Board members of listed companies in 2014 depending upon various factors differentiating its level.

¹ In effect, the survey covered 133 companies. Out of 140 analysed companies, in five companies remuneration of individual Management Board members was not indicated; in one remuneration of the Management Board members was not indicated; one company did not publish a report for 2014 as at the date of survey (detailed information on this issue was included in Appendix, "Survey methodology" section). These companies were excluded from the analysis.

Executive summary



Robert Kujoth
PwC Expert

Already a few years ago, we pointed out in the report on remuneration of Management Board members that there were a few areas in the Polish practice that had to undergo a radical change (looking from the perspective of shareholders). There were issues concerning, among others, a low level of disclosure of payroll data, low popularity of long-term bonus systems or an evident disparity between the remuneration of Management Board members at companies with a significant share of the State Treasury and of those at fully private companies. We also wrote that changes in these areas would advance at a slow pace; we should not expect significant changes in one year or two, but they will happen at last. We noted with full satisfaction that – for the first time after launching the survey – the remuneration of Management Board members at companies with a significant share of the State Treasury have generally become equal to those at fully private companies. For the time being it concerns only the WIG20 index, but the extension to other indices is only a matter of time – similarly as changes in other areas.

The remuneration level of top executives reflects the economic situation and companies' performance, which have remained at a stable level for another consecutive year. The total short-term remuneration of companies' executives increased, on average by approx. 3% as compared to 2013.

Such stabilisation, reported already in previous years, concerns not only the level but also the structure of the package of short-term remunerations of Management Board members of key listed companies. The share of the base pay and bonuses in the entire package of short-term remuneration has remained at a similar level, although a fall in the share of premium to 25% has been noticeable.

The relatively non-aggressive approach towards shaping the remuneration structure is likely to be maintained on the Polish market in the next years, which is consistent with the expectations of executives, unwilling to take chances with regard to their remuneration. In Poland, the trend of risk mitigation relating to remuneration of executives concerns mainly companies in the financial sector (banks and brokerage houses), which results from regulatory requirements introduced in the previous years. In the near future we may expect similar regulations for executives in the insurance sector.

Despite the growing regulatory pressure focused, among others, on corporate governance in managing Management Board members' remuneration, there is still no improvement in the quality of data disclosed by the Polish listed companies. Still only 30% of companies provide information on the remuneration divided into individual components.

In 2014, as in previous years, only one third (approx. 35%) of the analysed companies offered long-term incentive plans (LTIP) for executives. In 2014 the share of options and warrants, and phantom stock increased at the expense of shares and other financial instruments. Still low popularity of LTIPs may upset the shareholders as a well-structured long-term plan limits the risks brought about by the motivation of executives in the short run – e.g. the risk of focusing on the current year at the expense of long-term sustainable growth.

This year's PwC survey confirms the interdependence between the remuneration level and the size of the company observed in the previous years. Relatively small companies pay less than those with the largest market capitalisation or assets. WIG20 companies consistently pay their executives about 20% more than the analysed mWIG40 companies and almost two times more than the sWIG80 ones.

² Resolution No 258/2011 of the Polish Financial Supervision Authority of 4 October 2011 on (...) the principles of establishing the policy for variable components of remunerations of executives at banks and Regulation of the Minister of Finance of 2 December 2011 on the principles of establishing brokerage houses policy for variable components of remuneration of executives.

The most profitable industries in 2014 are



Impact of demographic factors (both as regards gender and origin) on remuneration of executives is still significant.

Ownership structure is, in addition to the company's size, another factor determining the level of remuneration package of executives. Among the mWIG40 companies disparities in remuneration are still observed to the disadvantage of executives from companies with share of the State Treasury. In contrast, remuneration of executives in key companies (WIG20) with a significant share of the State Treasury was marketed, and even started to exceed the average remuneration in private companies or those with an insignificant share of the state shareholder.

The top ten of the best paying industries in 2014 included practically the same sectors as in the previous year. The leader as to the average short-term remuneration of Management Board members has remained, for many years, the media industry (this year it is formally second to the wood & paper sector, which is however represented by only two companies). The telecommunication and insurance industries (with single representatives in the surveyed group) and banks were ranked among the first five.

Among the analysed companies employing both men and women in their Management Boards, a discrepancy in the average short-term remuneration has still remained significant. In 2014 men in those companies earned approx. 52% more than women (as compared to 47% in 2013).

Among companies having in the composition of the Management Board both foreign and local managers the differences in remuneration of both these groups are still significant, although they are decreasing. In 2014, the average remuneration of foreign Management Board members (excluding CEOs) was higher by approx. 19% as compared to the remuneration of their Polish counterparts (in 2013 it was 23% higher).

This average remuneration of ten best earning CEOs for 2014 is almost four times higher than the average among CEOs in the whole survey sample. The maximum remuneration paid to a CEO in 2014, i.e. approx. PLN 8.13 million remained at the similar level as compared to 2013 (approx. PLN 8.10 million). For the first time a woman was placed in the ranking of "Top 10" CEOs.

Average annual short-term remuneration of a Management Board member of ten companies offering the highest pay in 2014 was within the range from approx. PLN 1.78 million to approx. PLN 2.27 million, with the average amounting to approx. PLN 2 million (similar to the one in 2013). This average is almost two times higher than the average among Management Board members (excluding CEOs) in the whole survey sample. A half of the "Top 10" companies (i.e. companies offering the highest pay for their Management Boards members) made their debut in the ranking list in 2014.

Changes in the remuneration paid to top executives

In 2014, the average level of remuneration of top executives insignificantly increased comparing to 2013.

Changes in the remuneration level

In 2014, the total short-term remuneration of Management Board members increased on average by approx. 3% as compared to the previous year, while in 2013 the insignificant decrease in the average remuneration level was noted (approx. 2%). In 2014, CEOs of the analysed listed companies earned on average approx. PLN 1.5 million each, i.e. by approx. 2% more than in 2013. The level of short-term remuneration of other Management Board members increased by 4%, from approx. PLN 1.04 million in 2013 to approx. PLN 1.08 million in 2014. In 2014, a difference in the level of remuneration on the analysed positions slightly decreased up to the level of approx. 38%.

Table 1. Comparison of changes in the average remuneration of executives in 2013 and 2014 according to their position.

| Average annual remuneration of executives | | | |
|---|------------|------------|------------------------------------|
| Position | 2014 (PLN) | 2013 (PLN) | Change in 2014 as compared to 2013 |
| CEO | 1,490,000 | 1,460,000 | 2% |
| Member of the Management Board | 1,080,000 | 1,040,000 | 4% |
| Total | 1,180,000 | 1,150,000 | 3% |

Source: PwC analysis based on financial statements and reports of Management Boards on the analysed companies' activities for the years 2013 – 2014.

The continuing stabilisation of the companies' performance during the last period is reflected in the remuneration of Management Boards, which depend to a considerable extent on the performance of managed companies. Simultaneously, more and more dynamic growth of remuneration costs (of all employees) in the analysed companies may be observed, which in 2014 amounted to 7.5% (as compared to approx. 5% in 2013), while the market remuneration indices grew by approx. 3.6% (similarly as in 2013).

Table 2. Comparison of changes in values of remuneration indices.

| Index | Change of the value comparing with 2013 |
|---|---|
| Costs of remuneration in analysed companies | 7,5% |
| Average monthly gross remuneration in the enterprise sector | 3,7% |
| Average monthly remuneration in the national economy | 3,6% |

Source: PwC analysis based on financial statements and reports of Management Boards on the analysed companies' activities for 2014 and Communiqués and announcements of the President of the Central Statistical Office (GUS) in 2013 and 2014.

Trends

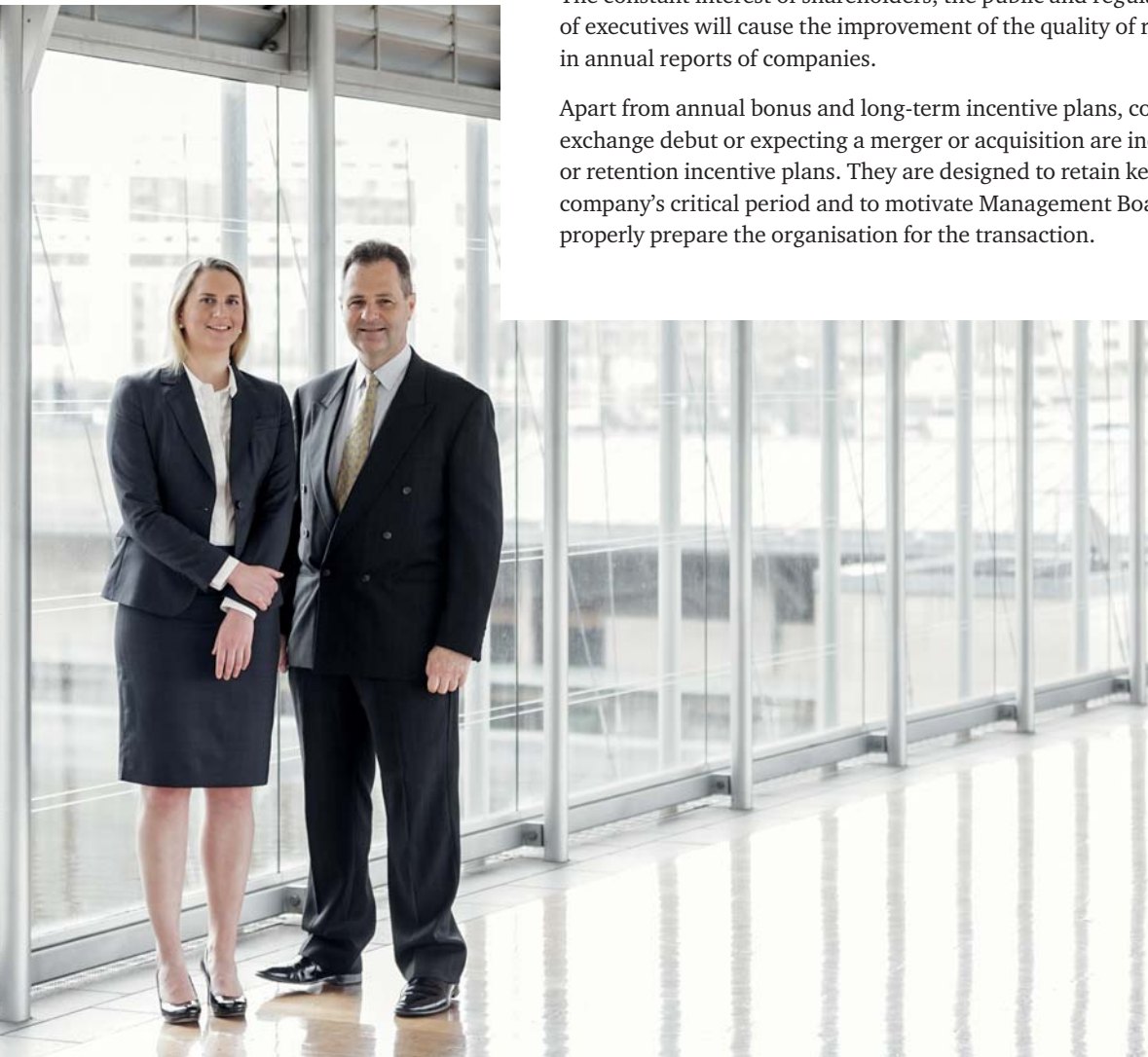
The practice of remunerating top executives of companies listed at the WSE does not undergo any strong fluctuations. Hence the trends, which have been observed since the last few years, probably will remain unchanged in the nearest future. Greater interest of shareholders, the public and regulators in remuneration of Management Board members and growing correlation of risk management strategy implementation with remuneration of executives are to be expected. As a consequence, companies will perhaps pay more attention to proper corporate governance, and a level of details of remuneration information in reports will be improving year by year.

Observing the legislative actions in the European Union, further intensification of regulations covering remuneration of executives is likely to occur also in Poland. Currently, it concerns in particular the widely understood financial sector (already in 2016 the provisions of the so-called Solvency II will enter into force, which will regulate remuneration of top executives in insurance company in a way similar to the provisions of CRD III / CRD IV in banking).

Everything seems to indicate that the market will continue to be dominated by the relatively non-aggressive (in terms of structure) model of remunerating Management Board members. It also seems that remuneration of executives of companies with a significant share of the State Treasury in the shareholder structure will finally become equal to remuneration of the remaining companies (not only within WIG20, but also MWIG40). This equalisation, which partly happened this year, is probably the most important change in relation to previous reports. Most probably, disparities between remunerations based on gender will also be decreasing. However, in this case it will take at least a few years more to achieve a high level of convergence.

The constant interest of shareholders, the public and regulators in remuneration of executives will cause the improvement of the quality of remuneration data presented in annual reports of companies.

Apart from annual bonus and long-term incentive plans, companies planning their stock exchange debut or expecting a merger or acquisition are increasingly adopting retention or retention incentive plans. They are designed to retain key managerial staff for the company's critical period and to motivate Management Boards to create its value and properly prepare the organisation for the transaction.



Remuneration package elements

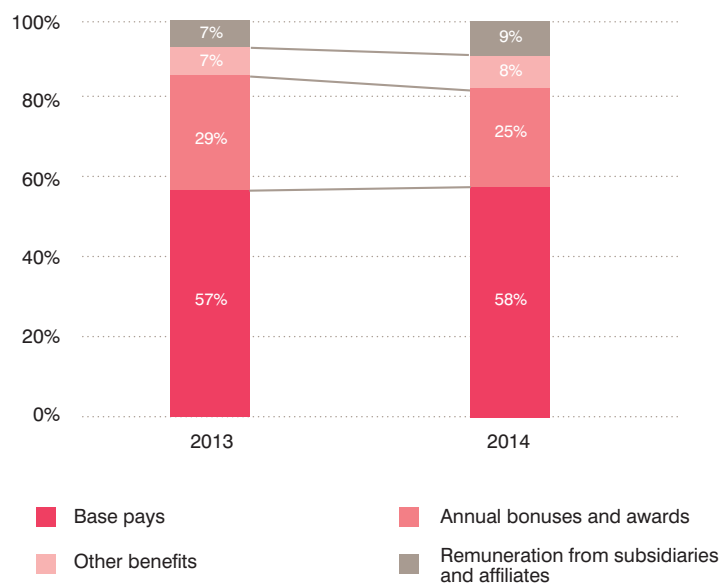
Although there are no fundamental changes in the remuneration package, the share of bonuses for another consecutive year shows a declining trend.

Stabilisation of the remuneration package structure³

In 2014 the structure of remuneration package was similar to the structure from previous years; however, a falling share of bonuses and awards and a growing share of remuneration from subsidiaries and affiliates in the total remuneration are noticeable.

In 2014, the base pay amounted to approx. 58% of the entire package of short-term remunerations. For another year in a row, the share of bonuses has been showing the falling trend and amounted to 25% as compared to 29% in 2013. The remaining part (i.e. approx. 17%) were other considerations and remunerations for positions in subsidiaries and affiliates.

Chart 1. Changes in the structure of short-term remuneration package of executives in 2013 and 2014.



Source: PwC analysis based on financial statements and reports of Management Boards on the analysed companies' activities for 2013 and 2014.

It should be noted that the above analysis is based on data from 38 companies for 2013 and from 43 companies for 2014, which included the value of remuneration of Management Board members divided into individual package components in their financial reports.

Concerning a vast majority of the companies (70% of analysed companies), their financial statements or reports of Management Boards on the analysed companies' activities do not contain any information on the division of the amount of the remuneration between its components (even the basic one – between fixed part and variable part) or any information on the remuneration policy or parameters which affect variable remuneration.

³ Based on data from 43 companies which included the value of remuneration of Management Board members divided into individual package components in their financial reports. Detailed information on this issue was included in the "Survey methodology" section.



The relatively non-aggressive approach towards shaping the remuneration structure is likely to be maintained on the Polish market in the years to come, which is consistent with the executives' expectations. As a rule, executives are not inclined to undertake any risks which concern their own remunerations⁴. In this situation, any increase of the share of variable salary (which is subject to risks) in the entire package might not necessarily lead to increased motivation of executives.

The observed approach to the remuneration structure is also a part of reducing the risk related to the remunerations of persons who manage public companies. For instance, for the banking sector, the European Union recommends a reduction of variable remuneration down to the amount of annual base pay. However, in our reality, such a high limit is usually a strictly theoretical one. In 2014, the average level of bonus expressed as a percentage of annual base pay at the banks listed on the three major WSE indices amounted to about 47%⁵.

In 2014, in the banking sector for another year in a row we witnessed the results of the implementation of the Polish Financial Supervision Authority's requirements as to the determination of variable remunerations, which apply to, among other, banks' Management Board members. Those requirements included the necessity to defer a considerable part of a bonus, which means that payroll data for 2014 for bankers may cover only a part of the bonuses they have achieved for a given year (but also bonuses for previous years, which have been deferred and paid out in the year of survey).

⁴ Research paper by PwC and the London School of Economics and Political Science: "Making executive pay work. The psychology of incentives". Report available at the PwC website <http://www.pwc.pl/pl/publikacje/making-executive-pay-work.jhtml>

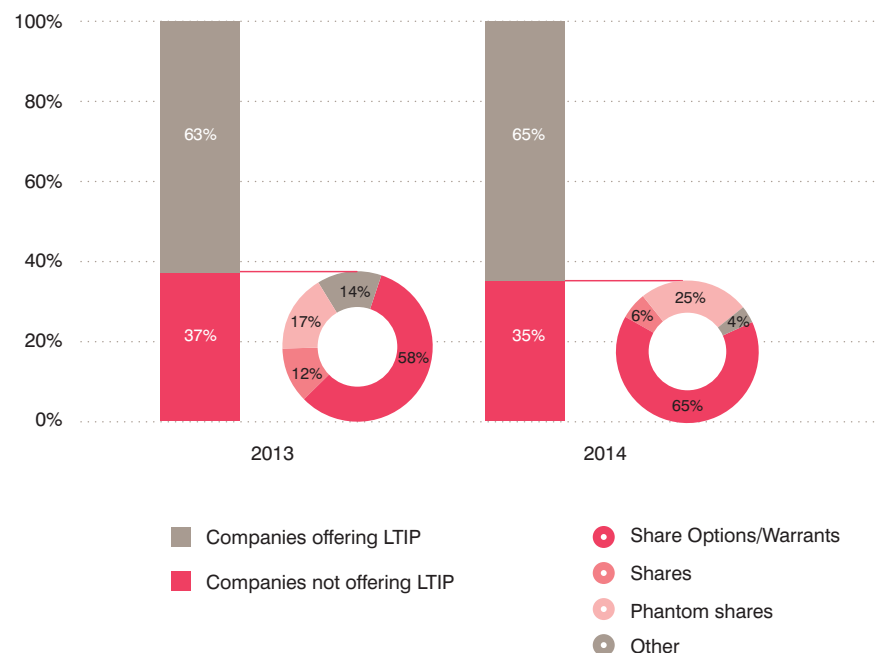
⁵ This applies to 4 banks which provided information on remuneration divided into individual components and paid out bonuses, and which were included in the analysed indices in 2014.

Long-term incentive plans

In 2014, the popularity of long-term incentive plans (LTIP) in Poland remained at the same level as in the previous editions of the survey. About 35% of key listed companies offered such incentives to their management.

Regulatory requirements introduced towards the end of 2011⁶, imposing on the selected institutions of the financial sector an obligation to pay a part of variable remuneration as a financial instrument and to distribute that payment in time, have not so far entailed a significant increase in popularity of long-term incentive plans. This is mainly due to the fact that the banks listed in the three analysed WSE indices, being subject to regulation, have previously used other long-term incentive tools. The said regulation, therefore, contributed to a change of mechanisms of granting and paying long-term remuneration (so that they comply with the new requirements) and not to an increase in share of companies using LTIP.

Chart 2. Share of companies offering long-term incentive plans in 2013 and 2014 and popularity of the instruments used.



Source: PwC analysis based on financial statements and reports of Management Boards on the analysed companies' activities for 2013 and 2014.

⁶ In 2011 the following were issued: The Resolution of the Polish Financial Supervision Authority, covering banks, as well as the Regulation of the Minister of Finance, applicable to brokerage houses.

In addition to a sense of prestige associated with participation in long-term incentive plans, those kind of plans can provide both the employee and employer with more tangible benefits, such as tax savings for the employee or a lack of social security contributions for both the employee and employer.

The most popular form of long-term incentive plans among companies from the analysed WSE indices are still managerial options (usually for shares from new issue), which are applied in about 65% of such types of incentives. However, it is worth to note that in 2014 the share of options and warrants, and phantom stock increased at the expense of shares and other financial instruments, such as bonds, phantom instruments and cash plans. In 2014 other financial instruments included only cash.

Popularity of long-term incentive plans still remain on a similar, quite low level. In advanced markets, such mechanisms are in place in practically all public companies. On the other hand, as compared to other countries in our region, LTIPs are relatively common in Poland. For instance, in the Czech Republic, Russia, Romania or Hungary, the percentage of companies which offer long term incentive plans to their executives still does not exceed 30%.

The main goal of long-term incentive plans, however, is to better motivate Management Board members. The PwC study on the psychological aspect of incentive shows that deferred payments are perceived by executives as having considerably lower value than their economic or accounting value really is. Polish managers rate deferred payments over twice as low as the entire survey sample. While on average the respondents assessed the value of one dollar deferred for a period of three years to be about 50 cents, the value of the same dollar was assessed by Polish respondents to be about 20 cents. In general, the study by PwC and the London School of Economics and Political Science shows that executives appreciate participation in such plans as prestige rather than the real financial motivator. Organisations should therefore concentrate on ensuring that the LTIP structure actually supports its motivational function.

In the case of plans based on financial instruments or derivative instruments, there is a possibility of taxing such remuneration at the rate of 19% as for income from money capital instead of the 32% progressive rate applied to income from employment. Importantly, derivative instruments may take the form of a right to receive future payment in cash, the amount of which will depend on the company's financial ratios (e.g. net profit, EBITDA, profitability ratios).



Remuneration levels

This year's PwC survey confirms the interdependence between the remuneration level and the size of the company observed in the previous years.

The main determinant of the base pay is the size of the company. Such interdependence is best reflected in market capitalisation, and then in assets and revenues of the company. The level of base pay is also influenced by the degree of complexity of the business activity, which is reflected in the diversity of remuneration per individual industries (further details to be found in the "Remuneration value paid to Management Boards in individual industries" section).

The average base pays of executives⁷, depending on the average annual market capitalisation, the value of assets and revenues for 2014 has been presented below.

Table 3. The average remuneration of executives in 2014, depending on the market capitalisation, the value of assets and revenues.

| Market capitalisation (PLN billion) | Average annual base pay of executives (PLN) | Assets (PLN billion) | Average annual base pay of executives (PLN) | Revenues (PLN billion) | Average annual base pay of executives (PLN) |
|-------------------------------------|---|-----------------------|---|------------------------|---|
| Up to 0.25 | 270,000 | Up to 0.25 | 280,000 | Up to 0.25 | 290,000 |
| From 0.25 up to 0.75 | 300,000 | From 0.25 up to 0.75 | 370,000 | From 0.25 up to 0.75 | 300,000 |
| From 0.75 up to 2.00 | 390,000 | From 0.75 up to 2.00 | 370,000 | From 0.75 up to 2.00 | 540,000 |
| From 2.00 up to 10.00 | 810,000 | From 2.00 up to 10.00 | 530,000 | From 2.00 up to 10.00 | 920,000 |
| Above 10.00 | 1,210,000 | Above 10.00 | 1,010,000 | Above 10.00 | 950,000 |

Source: PwC analysis based on financial statements and reports of Management Boards on the analysed companies' activities for 2014, the Stock Market Quotation for the period from 02.01.2014 to 30.12.2014.

Relatively small companies pay their Management Boards less than those with the largest market capitalisation or assets. It should be noted, however, that this interdependence is not linear and together with an increase in company size the base pays of executives grow more slowly.

Apart from base pays, the total short-term remuneration depends also on the level of the bonus paid. The amount of bonus, in turn, depends on the level of the incentive system aggressiveness (the more aggressive the system, the higher the potential value of the bonus) and the actual performance achieved by the company. The level of the bonus paid depends also – naturally – on the company's financial result. And it is not surprising that it is the highest in case of a significant increase in net profit.

Table 4. Change in the companies' performance (calculated on the basis of net profit) and change in the level of bonuses between 2013 and 2014⁸.

| Change in net profit between 2013 and 2014 | Average change in bonus value (%) |
|--|-----------------------------------|
| Net profit decrease | 18% |
| Net profit increase up to 50% | -2% |
| Net profit increase over 50% | 217% |

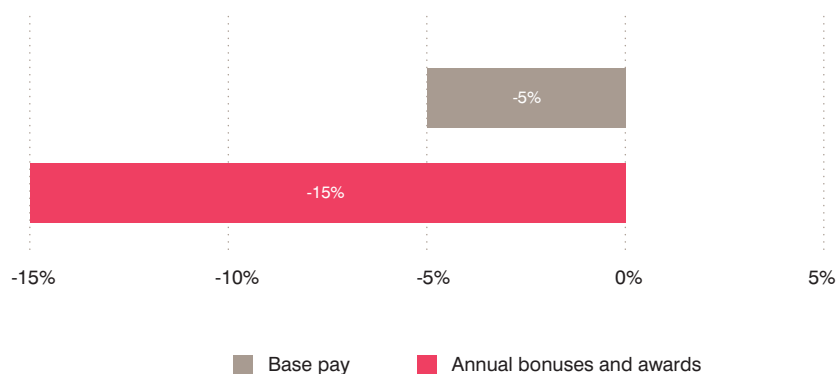
Source: PwC analysis based on financial statements and reports of Management Boards on the analysed companies' activities for 2013 and 2014.

⁷ The analysis covers 43 companies which provided information on remuneration of executives divided into individual components of remuneration package in their financial statements or reports on the companies' activities in 2014.

⁸ As above.

In absolute values, in 2014 base pays decreased on average by approx. 5% as compared to the previous year, while the average level of bonuses decreased by approx. 15%.⁹ The decrease in base pays and bonuses of Management Boards of key listed companies is a continuation of the trend related to the economic situation and the financial performance of enterprises. In 2013 and 2014, stable performance of companies resulted in the decrease in the average level of bonuses as compared to the previous years, when it was justified by improved performance after the recession

Chart 3. PwC analysis based on financial statements and reports of Management Boards on the analysed companies' activities for 2013 and 2014.¹⁰



Source: PwC analysis based on financial statements and reports of Management Boards on the analysed companies' activities for 2013 and 2014..

Remuneration value paid to Management Boards in individual WSE indices

Interdependence between the size of a company and the level of remuneration of executives is well illustrated by a comparison of remuneration packages for Management Board members according to the company's stock exchange index (which is a derivative of capitalisation). WIG20 companies, significantly exceeding the companies from the two remaining indices both in terms of average market capitalisation and the level of assets, offer much higher average remuneration for their Management Boards.

Table 5. Comparison of average value of market capitalisation, assets and short-term remuneration in mWIG40 and sWIG80 indices with the values in WIG20 index in 2014 (multiplicity).

| Stock exchange indices indices compared | Market capitalisation | Assets | Remuneration |
|---|-----------------------|--------|--------------|
| WIG20 versus mWIG40 | 5.4 | 5.0 | 1.2 |
| WIG20 versus sWIG80 | 30.1 | 28.8 | 2.8 |

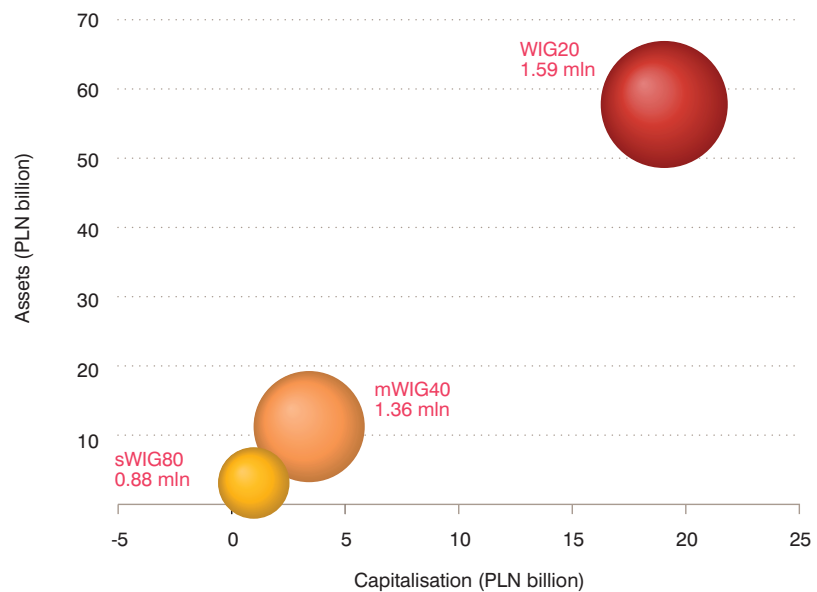
Source: PwC analysis based on financial statements and reports of Management Boards on the analysed companies' activities for 2014, the Stock Market Quotation for the period from 02.01.2014 to 30.12.2014

⁹ As above.

¹⁰ Only the companies which in their reports showed a division between variable and fixed remuneration.

It is worth noting that proportions in levels of remuneration of executives depending on the company size measured with the allocation to a given stock exchange index have remained almost unchanged over the past years. In 2014, WIG20 companies (over 5 times larger than mWIG40 companies and approx. 30 times larger than sWIG80 companies as to their market capitalisation and the value of their assets) paid their Management Board members on average approximately PLN 1.59 million a year per one Member, that is about 1.2 times more than mWIG40 companies (where the average annual short-term remuneration of a Management Board member in 2014 amounted to PLN 1.36 million) and about 2 times more than the analysed sWIG80 companies (where the average annual remuneration amounted in 2014 to about PLN 0.88 million).

Chart 4. The average annual remuneration of executives in 2014 versus capitalisation and the value of assets according to selected WSE indices.



The ball size illustrates the value of the average annual short-term remuneration of executives in 2014

Source: PwC analysis based on financial statements and reports of Management Boards on the analysed companies' activities for 2014, the Stock Market Quotation for the period from 02.01.2014 to 30.12.2014.

WIG20 companies reported approx. 8% decrease in the average level of remuneration of executives. In turn, Management Boards of mWIG40 and sWIG80 companies earned, respectively, by approx. 6% and 7% more than in the previous year.

However, when analysing the package level several factors affecting it must be taken into account. PwC has conducted such analyses with respect to the ownership structure and the industry that the company belongs to.

Table 6. Comparison of changes in the average remuneration of executives in 2013 and 2014 according to the WSE indices.

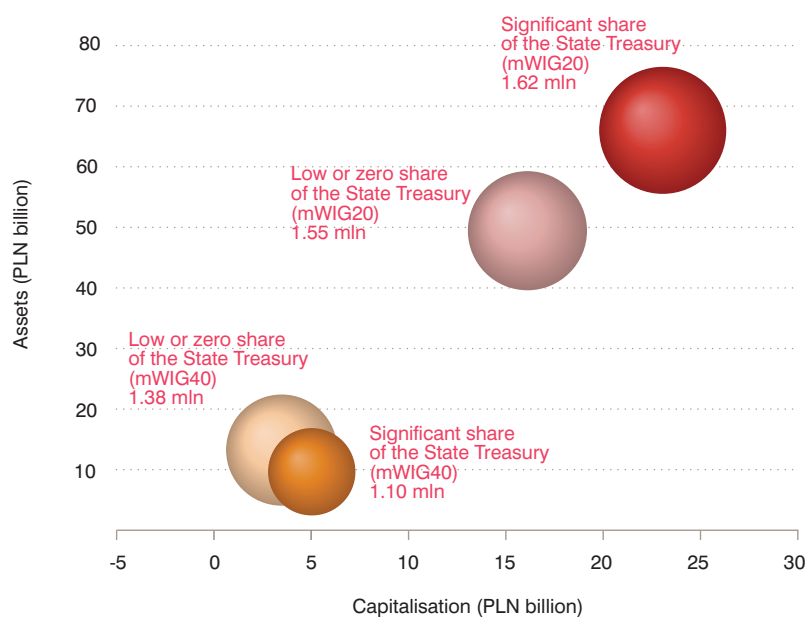
| WIG index | Average annual remuneration of executives | | |
|-----------|---|------------|--|
| | 2014 (PLN) | 2013 (PLN) | Change in 2014 as compared to 2013 (%) |
| WIG20 | 1,590,000 | 1,730,000 | -8% |
| mWIG40 | 1,360,000 | 1,280,000 | 7% |
| sWIG80 | 880,000 | 830,000 | 6% |

Source: PwC analysis based on financial statements and reports of Management Boards on the analysed companies' activities for 2013 and 2014.

Companies with the State Treasury's share

Until recently, the highest impact of the ownership structure on remunerations of Management Board members was reported in companies with a significant share of the State Treasury in the shareholder structure¹¹. On the one hand, this is due to the so-called Public Sector Salary Cap Act. On the other hand, those companies are under considerable pressure of the public opinion as regards remuneration of their Management Boards.

Chart 5. The average annual remuneration of executives of WIG20 and mWIG40 companies in 2014 versus capitalisation and the value of assets according to the State Treasury's share in the overall shareholder structure of the company.



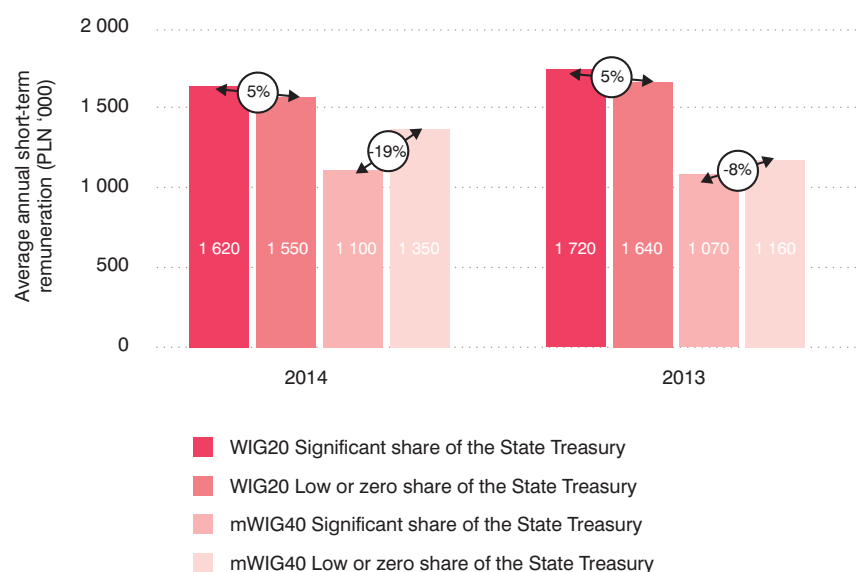
The ball size illustrates the value of the average annual short-term remuneration of executives in 2014.

Source: PwC analysis based on financial statements, reports of Management Boards on the analysed companies' activities for 2014, the Stock Market Quotation for the period from 02.01.2014 to 30.12.2014 and the list of companies with share of the State Treasury in the Ownership Supervision Service of the Ministry of State Treasury.

Until the previous year, remunerations of executives of WIG20 and mWIG40 companies with a large share of the State Treasury in the shareholder structure (being among the largest enterprises in the country) were by approx. 30% lower than remunerations paid out by other companies included in these indices. Disparities in remuneration to the disadvantage of executives from companies with share of the State Treasury are still observed among mWIG40 companies. In contrast, among WIG20 companies disparities in remuneration have reversed and in 2014 companies with a significant shareholding of the State Treasury offered, in average, remuneration by approx. 5% higher than the others.

¹¹ Companies with a significant State Treasury's share are understood as companies with the state's share in the shareholder structure of at least 20%.

Chart 6. Comparison of changes in the average remuneration of executives of WIG20 and mWIG40 companies in 2013 and 2014 in the context of share of the State Treasury in the shareholder structure.



Source: PwC analysis based on financial statements and reports of Management Boards on the analysed companies' activities for 2013 and 2014 and the list of companies with share of the State Treasury in the Ownership Supervision Service of the Ministry of State Treasury.

Remuneration of executives in key companies (WIG20) with a significant share of the State Treasury have started to exceed the average remuneration in private companies or those with an insignificant share of the state shareholder.

Management contracts are becoming increasingly popular in companies with significant share of the State Treasury in the shareholder structure, which so far were constrained by the Public Sector Salary Cap Act. They enable to shape the remuneration package and to determine its value without taking those constraints into account. Moreover, the Ministry of Treasury published in April 2013 the "Best Practices for modelling the rate and components of remuneration when concluding management contracts with members of management boards of selected companies with Treasury shareholding" (Best Practices) as part of the so-called Supervision Professionalisation Programme. According to these Best Practices, remuneration based on management contracts should be motivational in nature and should not deviate, in terms of its value and structure, from market practice. This resulted in a gradual replacement of discretionary awards with motivational plans based on performance criteria. Such changes create good environment for the growth of companies which are key to the Polish economy.

CEO as the majority shareholder

Another dimension of ownership structure which affects the level of remuneration of executives is the owner sitting in the Management Board. When analysing remuneration of Management Board members we may note different approaches to rewarding CEOs being at the same time the majority shareholders of the company and CEOs not being owners in major (mWIG40) and smaller (sWIG80) companies.

In case of mWIG40 companies, contrary to the previous year, the remuneration of CEOs being majority shareholders for performing a function in the Management Board was lower by half. However, they held much (40 times) bigger blocks of shares (the average value of their block of shares amount to approx. PLN 1 billion)¹².

¹² Calculated as the product of the number of shares held by a CEO and the company's share price as at the balance sheet date.



In the case of sWIG80 companies, the situation was completely different. CEOs of those companies being their owners received in 2014 remuneration higher by approx. 30% than their counterparts without majority stock in their companies. At the same time, they held a block of shares with the average value of PLN 78 million¹³ (almost four times more than the stock held by mWIG80 CEOs who are not owners).

Table 7. Comparison of the amounts of short-term remuneration and the value of the block of shares held by CEOs being and not being majority shareholders, as per WSE indices.

| WIG | | CEO who is a majority shareholder | CEO who is not a majority shareholder of the company | Difference |
|--------|---|-----------------------------------|--|------------|
| | Average annual short-term remuneration | 820 000 | 1 920 000 | -57% |
| mWIG40 | Average value of the block of shares held | 1 010 510 000 | 22 290 000 | 4433% |
| | Average annual short-term remuneration | 1 410 000 | 1 080 000 | 31% |
| sWIG80 | Average value of the block of shares held | 78 060 000 | 16 250 000 | 380% |

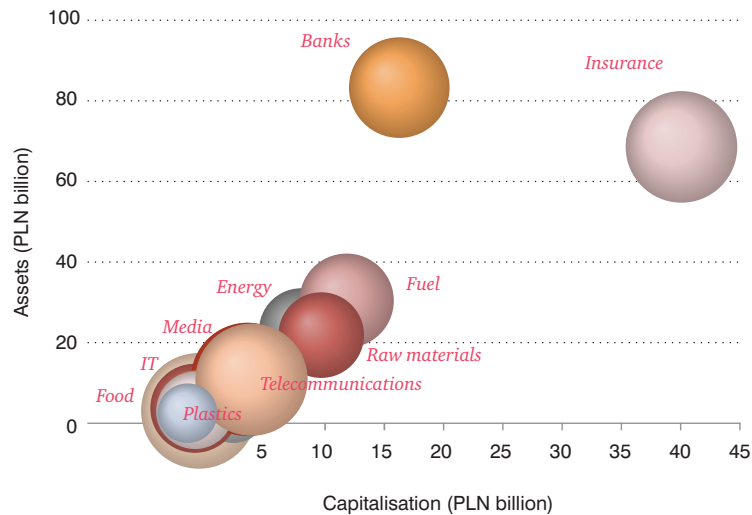
Source: : PwC analysis based on financial statements and reports of Management Boards on the analysed companies' activities for 2014.

¹³ Calculated as the product of the number of shares held by a CEO and the company's share price as at the balance sheet date.

Remuneration value paid to Management Boards in individual industries

Remuneration of Management Board members shows differences depending on the industry to which companies belong.

Chart 7. The average annual remuneration of executives in 2014 versus capitalisation and the value of assets according to industries.



The ball size illustrates the value of the average annual short-term remuneration of executives in 2014.

Source: PwC analysis based on financial statements and reports of Management Boards on the analysed companies' activities for 2014, the Stock Market Quotation for the period from 02.01.2014 to 30.12.2014.

Since a few years the media industry has been maintaining a leading position in the ranking of the industries offering the best pay to executives.

It is worth noting that the media industry has retained its position despite approx. 10% decrease in the average level of remuneration in this sector as compared to 2013.

The wood & paper industry (represented on our list only by 2 companies), offering the average remuneration at the level of approx. PLN 2.25 million, ranked first. Just after the media industry, on the 3rd position the telecommunication industry was placed (represented by 3 companies) with the average remuneration of PLN 2.13 million; the insurance industry (with only 1 representative on our list), paying to executives PLN 2.08 million in average, ranked fourth. Also the financial sector was present again among the industries offering the highest average remuneration. Banks with the average remuneration of PLN 1.7 million for one Management Board member ranked fifth, despite approx. 7% fall as compared with 2013.

In case of banking and telecommunication, the relatively high remuneration level may be also associated with the fact of significant (approx. 25%) representations of foreign individuals in Management Boards of companies (the so-called expats in Polish companies). In 2014 in the abovementioned industries executives from abroad earned in average 25% more than Poles.

The most noticeable decrease in the average level of remuneration in 2014 was recorded by the capital market. Here the remuneration of Management Board members decreased by approx. 54% as compared to 2013 and the industry dropped by 14 places in the ranking, landing at the 24th position (as compared to the 10th in 2013). A considerable fall of remuneration was also observed in the sector of construction materials, where executives earned approx. 26% less than in the previous year.

The highest remuneration increases were observed in the telecommunication sector (approx. 49%), light industry (approx. 39%) and in wholesale trade and electro engineering sector (approx. 34%).

Table 8. Comparison of changes in the average remuneration of executives in 2013 and 2014 per individual industries¹⁴.

| Sector | Place in ranking | | | Average annual remuneration of executives | | |
|----------------------|------------------|----------|------------|---|-----------------|-------------|
| | 2014 | 2013 | Change (%) | 2014 (PLN '000) | 2013 (PLN '000) | Change (%) |
| wood & paper | 1 | 3 | 2 | 2 250 | 1 970 | 14% |
| media | 2 | 1 | -1 | 2 150 | 2 380 | -10% |
| telecommunications | 3 | 6 | 3 | 2 130 | 1 420 | 49% |
| insurance | 4 | 2 | -2 | 2 080 | 2 320 | -11% |
| banks | 5 | 4 | -1 | 1 700 | 1 820 | -7% |
| fuel | 6 | 5 | -1 | 1 490 | 1 440 | 4% |
| IT | 7 | 7 | 0 | 1 340 | 1 320 | 1% |
| raw materials | 8 | 8 | 0 | 1 240 | 1 180 | 4% |
| energy | 9 | 9 | 0 | 1 200 | 1 110 | 8% |
| developers | 10 | 11 | 1 | 1 100 | 1 000 | 10% |
| hotels & restaurants | 11 | 12 | 1 | 1 030 | 910 | 13% |
| electro engineering | 12 | 18 | 6 | 1 020 | 760 | 34% |
| food | 13 | 16 | 3 | 1 010 | 820 | 22% |
| wholesale trade | 14 | 20 | 6 | 1 010 | 750 | 34% |
| metals | 15 | 19 | 4 | 960 | 750 | 27% |
| chemical | 16 | 17 | 1 | 920 | 790 | 16% |
| construction | 17 | 14 | -3 | 890 | 850 | -4% |
| automotive | 18 | 13 | -5 | 850 | 880 | -4% |
| retail trade | 19 | 15 | -4 | 850 | 830 | 1% |
| other services | 20 | 21 | 1 | 800 | 680 | 16% |
| pharmaceutical | 21 | 23 | 2 | 660 | 620 | 6% |
| plastics | 22 | 22 | 0 | 610 | 650 | -7% |
| finance other | 23 | 24 | 1 | 530 | 550 | -5% |
| capital market | 24 | 10 | -14 | 500 | 1 090 | -54% |
| building materials | 25 | 25 | 0 | 340 | 450 | -26% |
| light | 26 | 26 | 0 | 320 | 230 | 39% |
| other non-financial | 27 | 27 | 0 | 2 250 | 1 970 | 10% |

Source: PwC analysis based on financial statements and reports of Management Boards on the analysed companies' activities for 2013 and 2014.

¹⁴ The top five in the industry ranking has been marked in colour, excluding industries represented by less than 4 companies.

Level of remunerations depending on the position in the Management Board

The level of remuneration of Management Board members varies also according to the area supervised by them.

In 2014, Management Board members responsible for the areas of retail banking, operations and risk received the highest (after CEOs) average annual short-term remuneration as compared to remuneration of their colleagues from the Management Board supervising other areas. Relatively lowest remuneration was received by Management Board members responsible for HR and organisational and legal areas.

Table 9. Relative level of average annual short-term remuneration depending on the area of responsibility.

| Management Board member responsible for the area of: | Ratio of average remuneration as compared to other functions in the Management Board ¹⁵ |
|--|--|
| Retail banking ¹⁶ | 21% |
| Operations | 15% |
| Risk ¹⁶ | 15% |
| Finance | 10% |
| Investment banking ¹⁶ | 8% |
| Trade | 6% |
| Corporate banking ¹⁶ | -1% |
| HR | -14% |
| Organisational and Legal | -18% |

Source: PwC analysis based on financial statements and reports of Management Boards on the analysed companies' activities for 2014.

Level of remuneration and demography

The "Code of Best Practice for WSE-Listed Companies" recommends to public companies and their shareholders that the Management Board and the Supervisory Board are composed of persons ensuring appropriate, complementary and diversity-based proportions. Diversity both in Management Boards and Supervisory Boards is becoming more and more noticeable, however remunerations of their members still show differences in demographic terms.

Among the analysed companies employing both men and women in their Management Boards, a discrepancy in the average short-term remuneration has still remained significant. In 2014 men in those companies earned approx. 52% more than women (as compared to 47% in 2013). In 2014, this difference reached a maximum of approx. 106%. However, it should be pointed out that women comprised only 9% of the sample in 2014.

Among companies having in the composition of the Management Board both foreign and local managers the differences in remuneration of both these groups are still significant, although they are decreasing. In 2014, the average remuneration of foreign Management Board members (excluding CEOs) was higher by approx. 19% as compared to the remuneration of their Polish counterparts (as compared to 23% in 2013). In companies with "mixed" composition, it happens that foreign Management Board members earn less than the Polish ones, but this may be a result of them receiving remunerations from their parent companies. However, definitely more often Management Board members re-assigned to work in Poland earn more than their Polish peers. In 2014, this difference reached a maximum of almost 400%. Remunerations of the so-called expats often include a re-assignment package, which covers, for instance, rental of apartments, costs of removals, international flights and costs of child education. This results on average in remuneration 3 times higher than in the case of Polish managers due to additional benefits.

¹⁵ Calculated only for the Management Boards which in 2014 had a Member responsible for such function and for which the areas of responsibility of all Management Board members were listed.

¹⁶ Applies only to banks.

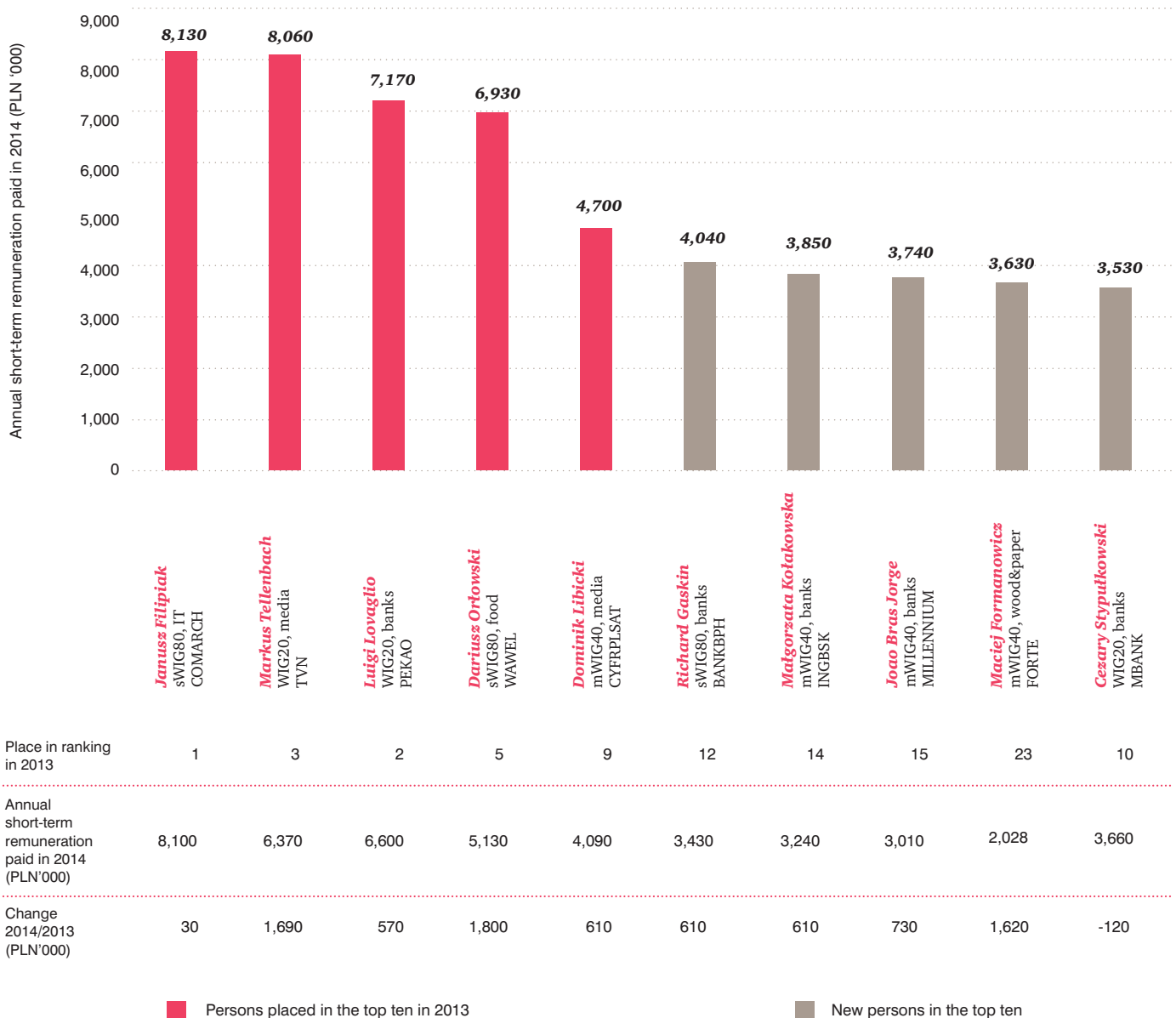
Top 10

Out of all companies analysed, ten best remunerated CEOs and 10 companies that paid the highest remuneration to other Management Board members (excluding the CEO) were selected. The analysis took account of short-term remuneration paid in 2014. The remuneration was given in amounts rounded to the nearest PLN 10,000.

Best remunerated CEOs

The graph below presents the best remunerated CEOs from WIG20, sWIG40 and mWIG80 index companies in 2014.

Chart 8. Ten best remunerated CEOs in 2014



Source: PwC analysis based on financial statements and reports of Management Boards on the analysed companies' activities for 2013 and 2014.



*The short-term remuneration of ten best paid CEOs in 2014 was within the range from approx. **PLN 3.54 million** to approx. **PLN 8.13 million**, with the average amounting to approx. **PLN 5.38 million**. The average remuneration in this group remained at the similar level as compared to 2013.*

This average remuneration of ten best earning CEOs for 2014 is almost four times higher than the average among CEOs in the whole survey sample. The maximum remuneration paid to a CEO in 2014, i.e. approx. PLN 8.13 million remained at the similar level as compared to 2013 (approx. PLN 8.10 million). For the first time a woman, CEO of ING Bank, was placed in the ranking of “Top 10” i.e. best earning CEOs.

6 from among 10 persons from the “Top 10” ranking were again included in the list of the best remunerated CEOs. A relatively permanent group of companies consequently remunerates their CEOs higher as compared with the rest of companies from the analysed indices.

In total, 75 CEOs received in 2014 short-term remuneration exceeding PLN 1 million, similarly to 2013, when such amount was received by 73 CEOs of the analysed companies.

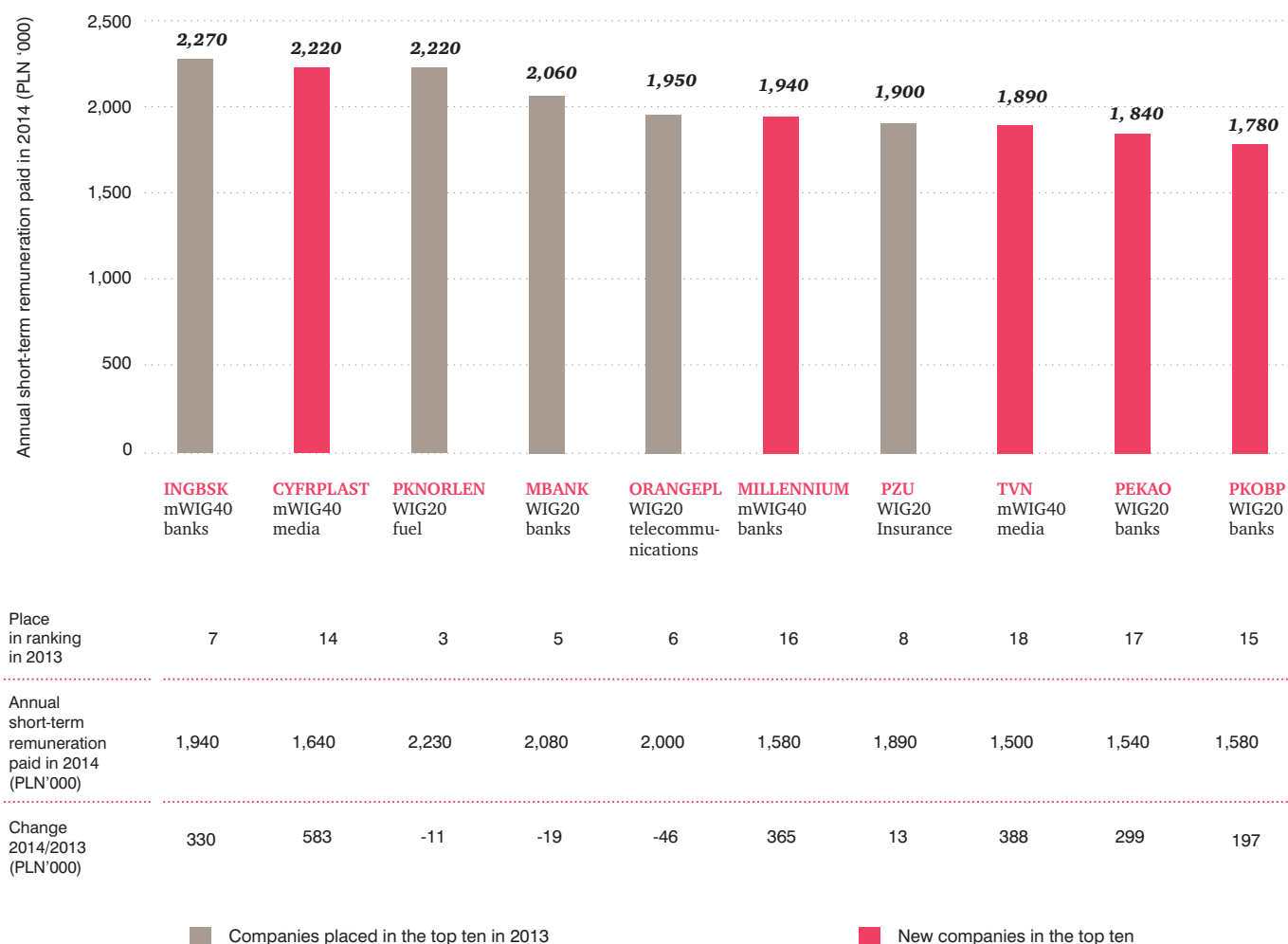
It's worth mentioning that 8 out of the 10 best remunerated CEOs at analysed companies were covered by long-term incentive plans, which also increase their level of remuneration package. In five cases there was a reward granted as part of LTIP in 2014. Meanwhile, in the remaining cases the plans implemented in the previous years were carried out. However, due to the low level of data disclosure, it was not possible to present the values of rewards granted or paid in 2014 as part of long-term plans.

The ranking of best remunerated CEOs confirmed the discrepancies between remuneration levels in different industries. Among industries two were mostly represented: banks (5 out of 10 companies) and media (2 out of 10 companies).

Companies offering the highest pay to Management Board members

The following graph presents 10 companies that paid the highest remuneration to their Management Board members in 2014 (excluding the CEO).

Chart 9. 10 companies that paid the highest remuneration to their Management Board members in 2014 (excluding the CEO).



Source: PwC analysis based on financial statements and reports of Management Boards on the analysed companies' activities for 2013 and 2014.

*In 2014, 38 companies in total paid short-term average remuneration to their Management Board members exceeding **PLN 1 million**.*



Average annual short-term remuneration of a Management Board member of ten companies offering the highest pay in 2014 was within the range from approx. PLN 1.78 million to approx. PLN 2.27 million, with the average amounting to approx. PLN 2 million (similar to the one in 2013). This average is almost two times higher than the average among Management Board members (excluding CEOs) in the whole survey sample. This ranking has undergone major changes as compared to the previous year: two companies from the first five in 2013 were no longer listed in 2014 in WIG20, sWIG40 and mWIG80 indices, while one fell in the ranking outside the top 10; however, five companies had their debut in the ranking in 2014.

It should be noted that about 12% of Management Board members at the best paying companies have not been exercising their duties throughout the whole financial year. This means that the average remuneration level in this group should not be inflated by severance payments or those related to non-competition agreements, but is rather a result of remuneration policies for Management Board members in place.

It is worth mentioning that 6 out of 10 best paying companies in 2014 had long-term incentive plans, which also increase the level of the total remuneration package for Management Board members. In three companies there was a reward granted as part of LTIP in 2014, in others only plans launched in previous years were in place. However, due to the low level of data disclosure, it was not possible to present the values of rewards granted or paid in 2014 as part of long-term plans.

The aforesaid list included only WIG20 and mWIG40 companies from various industries. Among industries the representation of banks was the largest on this list (5 out of 10 companies). The top ten best paying companies ranking included also companies from other sectors being the best paying ones in 2014, i.e. media, telecommunications, insurance and the fuel sector.

Remuneration of the Supervisory Boards



Piotr Rówiński

PwC expert

The market still does not pay supervisory boards well, which results mainly from perception of the value brought by boards. Nowadays, work in a supervisory board or even in three of them is not an attractive alternative to work in the management board; however, no one else but former management board members with business experience are able to bring the highest value and be a trustworthy partner for the management board and the owners. However, I think we are going in the right direction. Polish companies, including those with a significant private shareholder, are increasingly employing in their boards high class specialists and are ready to pay for their services. The proposed changes in best practices will entail slow changes also in this area. In order to help members of Supervisory Boards, owners and Management Board members to define a “resourceful” member of a Supervisory Board, for whose services there is a demand, the Expert Board at the Supervisory Boards Forum is working on a definition of competencies of the “resourceful” member of Supervisory Boards. These definitions will be based on the actual expectations of market players. In future they will help the present and future Supervisory Board members to acquire appropriate knowledge and competencies, for which the market will be willing to pay a correspondingly higher price.

Summary

Chairpersons of Supervisory Boards earned on average approx. PLN 166 thousand each, and their remuneration was over twice higher than remuneration of other members of Supervisory Boards. Supervisory Boards were offered the highest pay by mWIG40 companies and companies with a strategic foreign investor in their shareholder structure. In 2014, among the analysed companies employing both men and women in Supervisory Boards, like in the case of remuneration of Management Board members, men in those companies earned approx. 56% more than women. The maximum difference was thirteen times, though there were single companies where the average remuneration of women was higher.

Unlike in the case of Management Boards, among companies having in the composition of their Supervisory Boards both foreign and local members, differences in average remuneration of both these groups (except Chairpersons) are practically invisible, though in certain single companies they were significant both in favour of Poles and foreigners.

The prevailing majority of component members of Supervisory Boards are people at the age of 40–50 and 50+. We may notice that over the last years, the average age of Supervisory Board members was increasing year by year. Their average remuneration is also increasing proportionally to their age, which may be evidence that experience and business knowledge is appreciated and rewarded. The maximum total remuneration paid out to the whole Supervisory Board in 2014 amounted to nearly PLN 5 million, with the average total remuneration at the level of PLN 602 thousand. The average annual remuneration of the Supervisory Board member in ten companies offering the highest pay in 2014 was within the range from approx. PLN 266 thousand to approx. PLN 959 thousand; only in 3 companies the average remuneration exceeded PLN 500 thousand.

Usually, the following committees function within the boards: audit committees (nearly 70% of companies) and remuneration committees (almost a half of companies), rarely strategic committees and risk committees, but only in certain companies committee members receive higher compensation due to such involvement. In 2014, only 12% of all board members of WSE-listed companies sits at the same time in Supervisory Boards of more than one company. However, their number has grown comparing to the previous year, which may be regarded as a favourable trend towards further professionalisation of Polish Supervisory Boards. In the last year there also were single persons who were sitting at the same time in the boards of 3, 4 and even 5 companies.

Level of remuneration of supervisory personnel of companies

In the companies listed on three major stock exchange indices in Poland, earnings of Supervisory Board members remain at the standard, rather low level comparing with remuneration of members of Management Boards or Supervisory Boards in Western Europe. On the Polish market there are no clear rules of board remuneration and Supervisory Board members still feel that their remuneration is not adequate to the expected and required level of commitment to work for companies.

In the draft of amendments to the “Code of Best Practices for WSE Listed Companies”, according to similar trends observed in the world, a considerable emphasis has been put on consistency between the remuneration policy for members of Management Boards and Supervisory Boards with the company’s strategy, and making the remuneration amounts dependant on the company’s long-term performance and the role played. The company should have a remuneration policy that would define, in particular, the form, structure and level of remuneration of the Management Board and the Supervisory Board members. What is essential from the point of view of Supervisory Board members are the provisions concerning the required remuneration level, sufficient for attracting, retaining and motivating persons with competencies necessary for exercising proper supervision. The remuneration should also be adequate to the entrusted scope of duties and take into account additional functions performed by a member of the Supervisory Board, such as work in committees.

In 2014, the average remuneration of Supervisory Board members of the analysed WSE-listed companies amounted to approx. PLN 112 thousand, and still almost 13% of persons sitting in boards do not receive remuneration. Management Boards definitely earned more than Supervisory Boards (eleven times more in average). The biggest disproportions in remuneration are visible in WIG20 companies. Moreover, remunerations of supervisory personnel of companies are very diversified and depend, among others, upon the role played in the board, WSE index, type of shareholding or demographic factors.

Level of remuneration depending on the role played in the Supervisory Board

In 2014, Chairpersons of Supervisory Boards of the analysed companies earned in average approx. PLN 198 thousand each, and their remuneration was over twice higher than remuneration of other members of Supervisory Boards. The level of average remuneration of persons playing a role of a Secretary amounted to approx. PLN 110 thousand, and the Deputy Chairperson approx. PLN 97 thousand. Ordinary members of Supervisory Board received the lowest pay, their average remuneration amounted to PLN 93 thousand.

Table 10. Comparison of average remuneration of supervisory personnel in 2014 according to role played in the company.

| Role | Average annual remuneration of supervisory personnel (PLN) |
|---|--|
| Chairperson of the Supervisory Board | 198,000 |
| Secretary of the Supervisory Board | 110,000 |
| Deputy Chairperson of the Supervisory Board | 97,000 |
| Member of the Supervisory Board | 93,000 |

Source: PwC analysis based on financial statements and reports of Management Boards on the analysed companies' activities for 2014.

Remuneration value paid to Supervisory Boards in individual WSE indices

Looking at the average annual remuneration in 2014, like in the previous year, Chairpersons of Supervisory Boards of mWIG40 companies, earned the most – their average remuneration amounted to over PLN 290 thousand. Chairpersons of Supervisory Boards from WIG20 companies earned much less (nearly PLN 171 thousand) and sWIG80 (almost PLN 159 thousand).

The highest earnings among board members (except Chairpersons) are recorded in WIG20 companies (approx. PLN 127 thousand). Members of Supervisory Boards from mWIG40 received in 2014 a comparable, slightly lower remuneration (over PLN 122 thousand), and board members from sWIG80 – the lowest (only approx. PLN 67 thousand).

Table 11. Comparison of average remuneration of supervisory personnel in 2014 according to the size of companies by WSE indices.

| WIG index | Average annual remuneration of supervisory personnel (PLN) | |
|-----------|--|-------------------------------------|
| | Chairpersons of Supervisory Boards | Other Members of Supervisory Boards |
| WIG20 | 171,000 | 127,000 |
| mWIG40 | 290,000 | 122,000 |
| sWIG80 | 159,000 | 67,000 |

Source: PwC analysis based on financial statements and reports of Management Boards on the analysed companies' activities for 2014.

The level of remuneration of Management Board members varies also according to the type of shareholding the supervised company.

Level of remuneration of supervisory boards depending upon the type of shareholding of the supervised company

In 2014, both Chairpersons and other members of Supervisory Boards of companies with a strategic foreign investor in the shareholder structure received the highest average remuneration of PLN 277 thousand and PLN 137 thousand, respectively. The biggest discrepancies in average remuneration between Chairpersons and other members of the board were observed in companies with a dominant private shareholder, where Chairpersons earned in average almost three times more than other members. In companies with a dominant share of the State Treasury the role played in the Supervisory Board practically had no impact on the remuneration received.

Table 12. Comparison of average remuneration of supervisory personnel in 2014 according to the size of companies by the type of shareholding.

| WIG index | Average annual remuneration of supervisory personnel (PLN) | |
|--------------------------------------|--|-------------------------------------|
| | Chairpersons of Supervisory Boards | Other Members of Supervisory Boards |
| Dominant share of the State Treasury | 102,000 | 99,000 |
| Foreign strategic investor | 277,000 | 137,000 |
| Dominant private shareholder | 194,000 | 69,000 |
| Dispersed shareholders | 114,000 | 83,000 |

Source: PwC analysis based on financial statements and reports of Management Boards on the analysed companies' activities for 2014.



Level of remuneration and demography

In 2014, among the analysed companies employing both men and women in Supervisory Boards, men in those companies earned approx. 36% more than women. The biggest disproportions in remuneration occurred in mWIG40 companies, in which men earned over 70% more, while in WIG20 companies only 33% more. To the contrary, in sWIG80 companies women earned 41% more. Taking into account the type of shareholding, the biggest disparities in remuneration were noticeable in companies with a strategic foreign investor, where the average remuneration of men amounted to over 70%, and the smallest in companies with a dominant share of the State Treasury and amounted to approx. 17% to the favour of men. To the contrary, in companies with a dominant private shareholder women earned 32% more.

The present remuneration level in Polish boards may be perceived as one of the reasons for insignificant participation of foreigners in boards of Polish companies. In Polish companies without a foreign investor the share of foreigners is still marginal, at the level of 3% (to compare, in companies with a strategic foreign investor the share of foreigners in Supervisory Boards is close to 32%). Remuneration of Polish members of Supervisory Boards cannot be compared with companies in West-European countries.

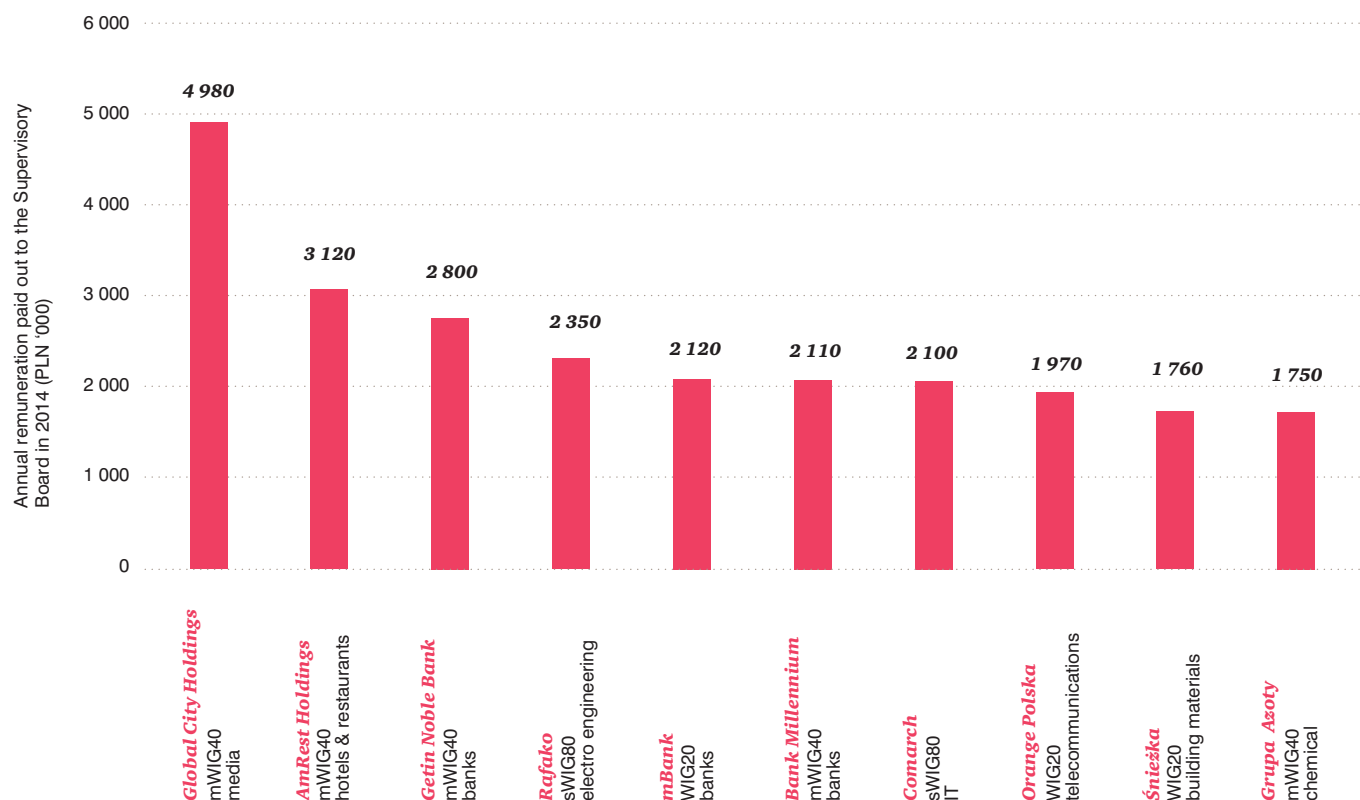
Among companies having in the composition of their Supervisory Board both foreign and local members differences in average remuneration of both these groups (except Chairpersons) are practically invisible, though in certain companies they were significant both in favour of Poles (maximally over twice bigger) and foreigners (maximally seven times bigger). Only after a thorough analysis one may perceive certain differences between remuneration of Poles and foreigners. WIG20 and sWIG80 companies were paying foreigners over 20% more in average, while mWIG40 companies – 30% less. Most surprising are disparities in remuneration according to the shareholder structure of companies; companies with a strategic foreign investor, with “mixed” composition of the Supervisory Board as regards the origin, were paying to the whole board in average at the comparable level, while it was among companies with a dominant private shareholder where a significant (over 30%) disparity in remuneration in favour to foreigners was visible.

The prevailing majority (90%) of the composition of Supervisory Board are persons in middle age (40-50 years) and mature age (50+), which is particularly visible in WIG20 and mWIG40 companies. What is interesting, the highest percentage of young people (approx. 15%) is in companies with a dominant share of the State Treasury. We may notice that over the last years the average age of Supervisory Board members was increasing year by year. Their average remuneration is also increasing proportionally to their age, which may be an evidence that experience and business knowledge gained during the long years of work on various levels of career is appreciated and rewarded. The youngest (30-40 years) earned PLN 77 thousand in average, people in middle age approx. PLN 88 thousand, while the average remuneration of the oldest amounted to nearly PLN 120 thousand.

Companies spending the most for Supervisory Boards

Out of 140 analysed companies ten were selected which allocated the largest budget to remuneration of Supervisory Boards. The remuneration was given in amounts rounded to the nearest PLN 10,000.

Chart 10. Ten companies, whose total remuneration allocated to the Supervisory Board in 2014 was the highest.



Source: PwC analysis based on financial statements and reports of Management Boards on the analysed companies' activities for 2014.

The maximum total remuneration paid out to the whole Supervisory Board in 2014 amounted to nearly PLN 5 million, with the average total remuneration at the level of PLN 602 thousand. The aforesaid list included companies from all indices and various industries. Among industries the representation of banks was the largest on this list (3 out of 10 companies). 13 more companies, whose budget for remuneration of Supervisory Boards in 2014 exceeded PLN 1 million were placed outside the "Top 10" ranking.

Companies offering the highest pay to Supervisory Board members

The following graph presents 10 companies that paid the highest remuneration to their Supervisory Board members in 2014. The remuneration was given in amounts rounded to the nearest PLN 10,000.

Chart 11. 10 companies that paid the highest remuneration to their Supervisory Board members in 2014.



Source: PwC analysis based on financial statements and reports of Management Boards on the analysed companies' activities for 2014.

The average annual remuneration of the Supervisory Board member in ten companies offering the highest pay in 2014 was within the range from approx. PLN 266 thousand to approx. PLN 959 thousand; only in 3 companies the average remuneration exceeded PLN 500 thousand. The aforesaid list included companies from all indices and various industries. Four more companies, whose average remuneration in 2014 exceeded PLN 200 thousand were placed outside the "Top 10" ranking.

Presence of committees in Supervisory Boards

Committees functioning within Supervisory Boards boost the activity of the board and support better division of tasks. Usually, the following committees function within the boards: audit committee (nearly 70% of companies) and remuneration committee (almost a half of companies), rarely strategic committee (17%) and risk committee (only 6%). The imposition of the statutory obligation to create audit committees in companies with a Supervisory Board consisting of more than five persons had a great impact on popularity of audit committees in WSE-listed companies. Apart from single cases, no companies exist with all the abovementioned committees.

Table 13. Presence of committees in Supervisory Boards in 2014.

| WIG | Audit Committees | Remuneration Committees | Strategic Committees | Risk Committees |
|--------|------------------|-------------------------|----------------------|-----------------|
| WIG20 | 90% | 75% | 35% | 10% |
| mWIG40 | 65% | 43% | 15% | 8% |
| sWIG80 | 50% | 23% | 0% | 1% |

Source: PwC analysis based on financial statements and reports of Management Boards on the analysed companies' activities for 2014.

Members of Polish Supervisory Boards pay particular attention to the lack of financial motivation for increased involvement, e.g. through work within the committee. Only in certain companies they may receive higher compensation due to such involvement. If we look at the companies listed on the London stock exchange, an additional remuneration for work in committees is a standard there.

Members sitting in a few Supervisory Boards

As results from the analysis conducted in 2014, only 12% of all board members of WSE-listed companies sits at the same time in Supervisory Boards of more than one company. However, their number has grown comparing to the previous year, which may be regarded as a favourable trend towards further professionalisation of Polish Supervisory Boards. Taking into account the required level of involvement in work for one entity we may assume that a professional member of Supervisory Boards, i.e. a person who apart from holding this function does not perform any work on a typical position may be active in 4-6 companies at one time. It seems that such involvement is optimal. In the last year there also were single persons (approx. 2% of all members of Supervisory Boards from the analysed indices), who were sitting at the same time in the boards of 3, 4 and even 5 companies.

Regulatory changes in the area of remuneration of Supervisory Board members

As of 1 January 2015, Supervisory Board members receiving remuneration for performing this function are subject to mandatory retirement and disability pension insurance. This obligation is independent of any other title to insurance or the established right to pension or disability pension. These persons are subject neither to sickness nor accident insurance, even on a voluntary basis. Additionally, Supervisory Board members are obliged to pay a health insurance contributions if they are residents of Poland.

Particular attention should be paid to the insurance status of foreigners sitting in the Supervisory Board, who may be released from the obligation to pay social and health insurance contributions in Poland. This exemption will be possible on the basis of a certificate issued by a foreign social security institutions under European coordination regulations or the relevant provisions of a bilateral social security agreement. However, the lack of the obligation to pay contributions on remuneration of the Supervisory Board member in Poland may mean the obligation to pay such contributions to the foreign social security institution in the country where the said certificate was issued.

Appendix



Survey methodology

The survey covered companies from three stock exchange indices: WIG20, mWIG40 and sWIG80 according to the composition of these indices as at 31 December 2014. All comparisons with 2013 are based on the data on remuneration of Management Boards of these companies in 2013.

In the analysis the following data sources were used:

- Data on remuneration of Management Boards and Supervisory Boards members of the companies; value of assets and revenues of the companies: financial statements and reports of Management Boards on the companies' activities for 2013 and 2014;
- Data on the value of market capitalisation: The Stock Market Quotation for the period from 02.01.2014 to 30.12.2014;
- Data on the share of the State Treasury in the shareholder structure: Ownership Supervision Service of the Ministry of State Treasury.

In case of foreign companies, which presented remuneration of executives in foreign currencies, this remuneration was converted into Polish zlotys in accordance with the table A of average exchange rates of the National Bank of Poland as at the balance sheet date of a given company.

Data presented in the report were analysed according to the following assumptions:

- Due to the level of disclosure of data on remuneration in financial statements of the analysed companies, all tables with numerical data presented in this report concern only short-term remuneration for the financial year 2014. These tables do not include remuneration resulting from participation of executives in long-term incentive plans;
- The persons who in 2014 did not receive remuneration were excluded from the analyses;
- In order to prepare a ranking, in the lists of 10 Presidents of the Management Board best remunerated in 2014, 10 companies which in 2014 offered the highest pay to Management Board members, and 10 companies which in 2014 paid the highest total remuneration to the Supervisory Board, short-term remuneration of all executives paid out in 2014 was taken into account;
- In all remaining lists (other than those concerning best remunerated Presidents of Management Board and companies paying out the highest remuneration to Management Board and Supervisory Board members) short-term remuneration only of those executives were taken into account who performed their functions for the whole financial year 2014;
- The analyses concerning the elements of the short-term remuneration package of executives covered only a part of the study sample. 7 companies were excluded from the survey (see: item below). Another 90 companies did not disclose the package components for individual members of the management personnel, and presented the remuneration as a total amount or the persons managing those companies received only remuneration for performing functions in subsidiaries and associates. Therefore, the analysis of share of individual elements of the short-term remuneration package was possible on the basis of data for just 43 companies.

The lists presented in the report do not include remuneration paid out to Management Board members of seven companies:

- i. The company KERNEL HOLDING S.A. in the financial statements gave the total amount of remuneration for the financial year of USD 2,242 thousand (PLN 6,832 thousand according to the table A of average exchange rates of the National Bank of Poland as at 30 June 2014). As this amount relates to the Group's management team (14 persons), it was not possible to distribute it among individual Management Board members, even on an estimate basis;

- ii. The company AUTOMOTIVE COMPONENTS EUROPE S.A. in the financial statements gave the total amount of remuneration for executives for 2014 of EUR 1,577 thousand (PLN 6,722 thousand according to the table A of average exchange rates of the National Bank of Poland as at 31 December 2014). As this amount relates to the Management Board members and the plant directors, it was not possible to distribute it among individual Management Board members, even on an estimate basis;
- i. The company MSX RESOURCES S.A. did not publish the financial statements for 2014 as at the date of survey completion (24 July 2015). In May 2015 the company filed a bankruptcy petition;
- iii. The company HAWE S.A. in the financial statements gave the total amount of remuneration for executives for 2014 of PLN 1,322 thousand. As some of the Management Board members did not perform their functions until the end of the financial year, it was not possible to distribute it among individual Management Board members, even on an estimate basis;
- iv. The company SMT SOFTWARE S.A. in the financial statements gave the total amount of remuneration for executives for 2014. As some of the Management Board members did not perform their functions until the end of the financial year, it was not possible to distribute it among individual Management Board members, even on an estimate basis;
- v. The company PZ CORMAY S.A. in the financial statements gave the total amount of remuneration for executives for 2014 of PLN 560 thousand. As some of the Management Board members did not perform their functions until the end of the financial year, it was not possible to distribute it among individual Management Board members, even on an estimate basis;
- vi. The company AGROTON PUBLIC LIMITED in the financial statements gave the total amount of remuneration for the financial year of USD 97 thousand (PLN 340 thousand according to the table A of average exchange rates of the National Bank of Poland as at 31 December 2014). As this amount relates to the Group's management team (12 persons), it was not possible to distribute it among individual Management Board members, even on an estimate basis.

The analyses concerning the remuneration of supervisory personnel covered only a part of the study sample. The lists presented in the report do not include remuneration paid out to Supervisory Board members of 2 companies, which were excluded from the analysis:

- i. The company MSX RESOURCES S.A. did not publish the financial statements for 2014 as at the date of survey completion (24 July 2015). In May 2015 the company filed a bankruptcy petition;
- ii. The company AGROTON PUBLIC LIMITED in the financial statements gave the total amount of remuneration for the financial year of USD 97 thousand (PLN 340 thousand according to the table A of average exchange rates of the National Bank of Poland as at 31 December 2014). As this amount relates to the Group's management team (12 persons), it was not possible to distribute it among individual Supervisory Board members, even on an estimate basis.

Companies with a significant State Treasury's share are understood as companies with state shareholding of at least 25%.

The abbreviated names of the companies used in the report and the assignment of individual companies to industries and their nomenclature are consistent with nomenclature used by the service of the Warsaw Stock Exchange.

The values of remuneration presented on charts and in tables are rounded to the nearest PLN 10,000 (unless otherwise provided).

Key abbreviations, terms and definitions

| Abbreviation/term | Explanation of the abbreviation / definition |
|---|--|
| Annual bonus | Variable remuneration the payment of which depends upon the achievement of short-term (annual) goals. |
| Base pay | Remuneration paid to an employee for performance of work assigned to him/her. It is also called a base salary. |
| CEO | For the purpose of this study the CEO shall mean the highest position in the Management Board, irrespective of the name (President of the Management Board, Director General, CEO, etc.) |
| Chairperson of the Supervisory Board | Dyrektywa Parlamentu Europejskiego r Rady 2010/76/UE z dnia 24 listopada 2010 r. w sprawie zmiany dyrektyw 2006/48/WE oraz 2006/49/WE w zakresie wymogów kapitałowych dotyczących portfela handlowego i resekurytyzacji oraz przeglądu nadzorczego polityki wynagrodzeń. |
| CRD3 | Directive of the European Parliament and of the Council 2010/76/EU of 24 November 2010, amending Directive 2006/48/EC and 2006/49/EC as regards capital requirements for the trading book and for re-securitisations, and the supervisory review of remuneration policies. |
| CRD4 | Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC. |
| EBITDA | Earnings Before Interest, Taxes, Depreciation and Amortization. |
| EPS | Earnings per share – market ratio measuring the amount of profit per one share. |
| Executives | For the purpose of this study this term includes a President and Members of the Management Board. |
| Fringe benefits | Additional compensations due to work performance, like private medical care, additional paid leave, etc. |
| Long-term Incentive Plan (LTIP) | The remuneration the payment of which usually depends upon the fulfilment of effectiveness criteria and maintenance of employment relationship for a few years; it may be based on securities, i.e. restricted stock, right to shares for performance, share options etc. or, like the annual bonus, only on a cash element. |

Key abbreviations, terms and definitions

| Abbreviation/term | Explanation of the abbreviation / definition |
|---|--|
| LTIP | Long-term Incentive Plan. |
| Member of the Management Board | For the purpose of this study, it is a person present in the composition of the company's Management Board (i.e. the President of the Management Board and other members of the Management Board), unless it was indicated that this term included only other members of this body (i.e. except the President). |
| Member of the Supervisory Board | For the purpose of this study, it is a person present in the composition of the company's Supervisory Board (i.e. the Chairperson of the Supervisory Board and other members of the Supervisory Board), unless it was indicated that this term included only other members of this body (i.e. except the Chairperson). |
| mWIG40 | Stock exchange index of medium companies listed on the Warsaw Stock Exchange. It consists of 40 companies. |
| Phantom programmes/ plans | Incentive plans in which an employee receives after the vesting period an amount equal to the market value of the shares he/she holds or to a difference between the stock price as of the day of being vested and the price determined on the reward grant date. |
| Share options (in the context of LTIP) | The instrument carrying the right, but not the obligation, to buy shares at a predetermined price. To become an owner of shares the employee must exercise the option, i.e. buy shares at the redemption price. |
| Shares (in the context of LTIP) | A security which grants the employee property and non-property rights resulting from participation in a joint stock company. Upon vesting the rights the employee automatically becomes a full-fledged owner of shares without performing any actions. |
| Supervisory personnel | For the purpose of this study this term includes Chairpersons and Members of the Supervisory Board. |
| sWIG80 | Stock exchange index of small companies listed on the Warsaw Stock Exchange. It consists of 80 companies. |
| WIG20 | Stock exchange index of 20 biggest companies listed on the Warsaw Stock Exchange. |
| WSE | Warsaw Stock Exchange. |

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