

News Release

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Mercer issues annual study of CEO compensation at large US firms
Latest proxies show CEO pay and corporate performance are closely aligned amid
intensifying pressure for responsible executive pay

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The drive for responsible executive compensation is showing results. Confounding the expectations of some observers, CEO compensation changes last year were modest, and pay and corporate performance were closely aligned, according to the *Mercer Human Resource Consulting 2005 CEO Compensation Survey*. The annual survey of the latest proxy filings of 350 large public companies was published today in *The Wall Street Journal*.

According to the Mercer 350 study, the median CEO base salary remained flat at \$975,000. As evidence that compensation committees can make tough decisions, nearly one-third of the CEOs received no base salary increase last year. The median annual CEO bonus rose 8.4% to \$1.4 million. Total annual compensation (base salary plus annual bonus) rose 7.1% to \$2.4 million, continuing the trend of aligning cash compensation with corporate profitability. The median annual increase in net income for companies in the study was 13%.

Continued pressure on long-term incentives (notably stock options) kept median total direct compensation (base salary, annual bonus, and the present value of long-term incentives) for CEOs in check, rising 5% in 2005 to \$6.8 million. That increase corresponds closely with the median 6.8% total shareholder return in 2005, another indication that efforts to forge a stronger connection between CEO compensation and company performance are having the desired effect.

Peter Chingos, a senior executive compensation consultant with Mercer in New York, thinks that the pay-for-performance culture that began several years ago is now standard operating procedure for many American corporations. "The close alignment of pay and performance

reflected in the 2005 Mercer survey numbers indicates that organizations are moving toward more responsible executive compensation.”

Mr. Chingos noted that the recent disclosure reform proposal put forward by the Securities and Exchange Commission (SEC) is already contributing to a greater emphasis on both transparency and sound corporate governance. “The proposal has influenced proxy filings. We’re seeing more stock option value and total compensation columns, director compensation tables, perquisite tables, and expanded discussions of the rationale behind the programs,” Mr. Chingos said.

The pay mix: use of long-term incentives continues to decline

Just a few years ago, CEO compensation was, for the most part, all about equity. In 2002, long-term incentives (LTI) represented 68% of the total CEO pay mix. By 2005, according to the survey, LTI represented 62% of the pay mix (See Table 2.) Stock option use also continued to decline, from 57% of LTI value in 2004 to 52% in 2005. Companies are looking to other vehicles, notably restricted stock and performance shares.

Use of restricted stock rose from 22% of LTI value in 2004 to 26% last year. There is more evidence that companies are rebalancing the long-term component: the number of CEOs receiving stock option grants dropped from 273 in 2004 to 265 last year, while those receiving restricted stock grants jumped from 166 to 181 over the same period. In particular, performance-based LTI awards are being used by 57% of the surveyed companies, up from 51% in 2004 and only 37% in 2003.

According to Diane Doubleday, global leader of Mercer’s executive remuneration business, the big change in 2006 will be the continued replacing of “rest and vest” restricted shares that vest over time, with performance shares that vest upon the achievement of pre-determined goals. “Governance norms will require that performance be a focal point for the equity component,” Ms. Doubleday said. “These plans are being put into place today. Next year, we will see many more companies using three equity vehicles for their senior management: options, restricted stock, and performance shares. And with new disclosure standards, investors will know a lot more about these programs.”

Industry variations

Mercer’s *CEO Compensation Survey* also looks at trends in 10 major industries. In 2005, the median percentage increase in total annual compensation (base salary and bonus) outpaced the median increase in net income in only three of the 10 industries. Median total annual compensation for the CEOs increased significantly in just two of the sectors — utilities (26.1%) and telecommunications (24.3%) — last year (See Table 3.)

The *Mercer Human Resource Consulting 2005 CEO Compensation Survey* analyzes and reports on the most current publicly available compensation information as disclosed in the proxy statements of 350 large US companies. This is the 14th consecutive year that Mercer has prepared the survey for *The Wall Street Journal*. For 10-year trend data, see Table 1.

Mercer Human Resource Consulting is the global leader for trusted HR and related financial advice, products, and services, with more than 15,000 employees serving clients in over 190 cities and 41 countries and territories worldwide. The company is a wholly owned subsidiary of Marsh & McLennan Companies, Inc., which lists its stock (ticker symbol: MMC) on the New York, Chicago, Pacific, and London stock exchanges.

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Table 1: 10-Year Trends (Percentage Change over Prior Year)

<i>Year</i>	<i>CEO Annual Compensation (Salary and Bonus)</i>	<i>Exempt Employees Annual Compensation</i>	<i>Corporate Profits</i>	<i>Annual CPI</i>
1996	5.2%	4.0%	11.0%	3.0%
1997	11.7%	4.2%	8.9%	2.3%
1998	5.2%	4.2%	5.0%	1.6%
1999	11.0%	4.2%	15.1%	2.2%
2000	10.0%	4.2%	8.9%	3.4%
2001	-2.8%	4.4%	-17.8%	2.8%
2002	10.0%	3.8%	14.8%	1.6%
2003	7.2%	3.6%	19.2%	2.3%
2004	14.5%	3.4%	23.0%	2.7%
2005	7.1%	3.6%	13.0%	3.4%

Source: Mercer Human Resource Consulting

Table 2: CEO Pay Mix

<i>Year</i>	<i>Salary</i>	<i>Bonus</i>	<i>Long-Term Incentives</i>
2001	16%	13%	71%
2002	16%	16%	68%
2003	18%	19%	63%
2004	15%	23%	62%
2005	16%	22%	62%

Source: Mercer Human Resource Consulting

Table 3: 2005 CEO Compensation by Industry

<i>Industry</i>	<i>Salary and Bonus (000)</i>	<i>TDC* (000)</i>	<i>Percentage Change in</i>		
			<i>Salary and Bonus</i>	<i>TDC*</i>	<i>Company Net Income</i>
Basic Materials	\$2,250.0	\$5,738.9	6.3%	12.4%	17.8%
Consumer Goods	\$2,718.6	\$8,589.8	1.3%	-8.0%	9.5%
Consumer Services	\$1,500.0	\$4,863.4	4.8%	10.7%	1.9%
Financial	\$3,638.5	\$9,670.9	6.0%	5.0%	15.8%
Health Care	\$3,075.1	\$11,334.3	11.7%	-2.4%	11.6%
Industrials	\$2,162.8	\$5,464.2	8.9%	5.0%	21.6%
Oil & Gas	\$4,070.0	\$11,828.1	15.6%	11.3%	82.6%
Technology	\$2,157.6	\$8,914.8	6.0%	0.1%	24.6%
Telecommunications	\$4,696.8	\$18,846.5	24.3%	7.5%	25.6%
Utilities	\$2,364.0	\$5,605.3	26.1%	14.7%	0.8%
Full Sample	\$2,408.7	\$6,830.2	7.1%	5.0%	13.0%

* Total direct compensation (TDC) includes base salary, annual bonus, and long-term incentive grant values (including the binomial value of stock options, restricted stock, and other target long-term incentives).

Source: Mercer Human Resource Consulting