

Mercer Compensation Localizer Report

Manchester, United Kingdom to Kuala Lumpur, Malaysia

Calculation run on 01-Aug-14

Marital / Family Status at Home: Married with 2 children	Marital / Family Status at Host: Married with 2 children	Marital / Family Status at Host: Married with 2 children
	Exchange Rate: 1 GBP : 5.425284 MYR	

Current Compensation Manchester, United Kingdom	Calculated Host Compensation Kuala Lumpur, Malaysia	Proposed Host Compensation Kuala Lumpur, Malaysia								
<u>GBP</u>	<u>MYR</u>	<u>MYR</u>								
Annual Base Pay	Calculated Base Pay	Proposed Base Pay (IPE Level 57)								
75000	268797	210323								
Additional Taxable Compensation	Additional Taxable Compensation									
7500	26880									
Total Compensation	Total Compensation	Total Compensation								
82500	295677	210323								
↓	↑	↓								
Taxes	Taxes	Taxes								
Tax:	Tax:	Tax:								
(22627)	(59526)	(37334)								
Social Security	Social Security	Social Security								
(4881)	(32701)	(23313)								
Family Allowance	Family Allowance	Family Allowance								
0	0	0								
Net Income	Net Income	Net Income								
54992	203450	149676								
Housing	Housing	Housing								
(10534)	(30366)	(25815)								
Cost-of-Living Adjustment										
(12555)										
Adjusted Net Income	Adjusted Net Income *	Adjusted Net Income								
31903	173084	123861								
	*Please note that there may be a slight difference between the Adjusted Net Income in the home location and the calculated Adjusted Net Income in host location based on rounding differences that may occur in the gross up.									
	Exchange Rate : GBP 1.00 = MYR 5.425284									
	→									
	173083									
		<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding: 5px;">Total Compensation difference: Proposed versus Calculated</td> <td style="text-align: right; padding: 5px;">-85354</td> </tr> <tr> <td style="padding: 5px;">Percentage Difference from Calculated</td> <td style="text-align: right; padding: 5px;">-29%</td> </tr> <tr> <td style="padding: 5px;">Adjusted Net Income difference: Proposed versus Calculated</td> <td style="text-align: right; padding: 5px;">-49223</td> </tr> <tr> <td style="padding: 5px;">Percentage Difference from Calculated</td> <td style="text-align: right; padding: 5px;">-28%</td> </tr> </table>	Total Compensation difference: Proposed versus Calculated	-85354	Percentage Difference from Calculated	-29%	Adjusted Net Income difference: Proposed versus Calculated	-49223	Percentage Difference from Calculated	-28%
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Calculation Assumptions

Home

Goods and Services Spendable Income: Standard
 Cost-of-Living Index: 60
 Exchange Rate: Specific Week 25-Jul-2014

Values used in calculation

Tax: Mercer Data
 Social Security: Mercer Data
 Family Allowances: Mercer Data
 Housing: Mercer Data
 Goods and Services Spendable Income: Mercer Data
 Cost-of-Living Index: Mercer Data

Host

Housing: Local
 Social Security: Included
 Family Allowances: Included

Host

Housing: Local
 Social Security: Included
 Family Allowances: Included

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How to read this report

The general goal of this methodology is the establishment of a salary in the assignment location (currency) that preserves an employee's current standard of living or net compensation (in the home country). The Compensation Localizer Report adjusts an individual's home-country net pay for cost-of-living differences, then grosses up for local taxes and housing to establish a target compensation package in the host country:



Using Compensation Localizer Reports to Best Advantage

The Compensation Localizer report is intended to be a general tool in the salary determination process rather than a perfect conversion measure. Obviously, the local salary structure into which the international transferee must fit plays a large role in the determination of a new base salary. Companies using this approach generally develop two alternative salary packages:

- Salary Survey data: A competitive local salary within the host country salary structure, taking into consideration level, skills, and peer salaries. Mercer produces market compensation reports that reflect: the responsibilities and complexities of the local job; cash compensation (base salary and bonuses), supplementary benefits (i.e. company car/allowance, vacation entitlement, typical pension contributions, etc.) and total compensation costs (i.e. employer social insurance contribution levels, estimation of total employment cost). Please contact your Mercer consultant for more information on market compensation reports.
- A salary package that includes adjustments for differences in taxes, housing, and cost of living between the individual's home country and the new location.

Wherever possible, companies will normally pay the higher of the two packages, or provide some type of transitional allowance. Ultimately, the Compensation Localizer report provides an excellent indication as to how well a new local package will maintain an employee's original home-country standard of living—and how competitive the new salary package will be.

Key Definitions

Local Housing: represents a hypothetical amount that a local employee with a given salary and family size typically spends on mortgage interest, rent, utilities, repairs, general house maintenance, insurance and property taxes—but not mortgage principal. Mortgage principal is not considered an expenditure or homeowner's cost—it is the repayment of a loan. The interest portion of the payment is the cost of the loan, or what the mortgage company is charging an individual to borrow money. Because it is considered a service for which one is charged, the interest is viewed as an expenditure.

Expatriate Level Rental Housing: represents the current rental market for neighborhoods in which expatriate employees would reside. It includes the amount for renting the accommodation plus utilities.

Net Income at home: this amount is what will be protected in host-country currency to ensure that the employee maintains their current standard of living.

Target Net Income at Host: this amount (converted into local currency) is what the new base salary in host-country currency will be based off of. It will be grossed up for local taxes, social security contributions and housing costs.

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	<u>MYR</u>
Proposed Host Compensation	210323
Calculated Host Compensation	295677
Economic Gap* (Proposed - Calculated)	-85354

*The economic gap represents the GROSS amount needed to bridge the difference in purchasing power between the Proposed Host Compensation and the Calculated Host Compensation derived to protect the individual's net income. If the gap is negative, a payout of this amount that is phased out over a set period will help ease any economic loss that occurs due to the transfer. Generally, for localization packages the goal is to get the transferee onto local terms and conditions, and as such the payout is phased down and the term is limited. If the gap is positive, no additional compensation is required to protect the individual's purchasing power.

Sample Payout Options

2 year payout		
Year 1	100%	85354
Year 2	50%	42677

3 year payout		
Year 1	100%	85354
Year 2	66%	56334
Year 3	33%	28167

5 year payout		
Year 1	100%	85354
Year 2	80%	68283
Year 3	60%	51212
Year 4	40%	34142
Year 5	20%	17071