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BOARD INDEPENDENCE MAINTAINED, BUT GENE POOL STILL SHALLOW.

Australian boards have succeeded in making sure they are majority independent, but directors may be struggling to deal with CEOs with longer tenure and more experience, according to recent Australian Council of Superannuation Investors (ACSI).

The research also found that the pool from which directors, including independent directors, are being chosen remains narrow and that boards continue to be dominated by white men over the age of 60, with the proportion of board seats held by women falling.

The research is part of ACSI's annual study of board composition and non-executive director remuneration in S&P/ASX 100 companies and has tracked board composition since 2002.

ACSI's CEO, Ann Byrne, said that the results of the study, which cover the 2007 financial year, show that boards continue to listen to investor calls for majority independent boards. The question now for investors is how do they ensure that "independence of mind" is part of being an independent non executive director.

"Each year we look for improvements in the key governance areas and we hope to see a continuation of this trend in this year's annual reports.

"The fact that the average S&P/ASX 100 board is clearly majority independent - with 65 percent of board seats held by independent directors (unchanged since 2005) and 81 percent held by non-executive directors - indicates that boards are aware of the need for independent oversight and review of management," she said.

Table 1: State of the board - overview of Top 100 company boards in 2007

	Male Directors	Female Directors	Directors	Male Director-ships	Female Director-ships	Director-ships	Average Age	Average Pay	Average Tenure
Executive	23.3%	0.5%	23.8%	18.4%	0.4%	18.8%	52.8	\$4,438,657	6.9
Non-Executive	68.3%	9.9%	78.2%	69.2%	12.0%	81.2%	60.0	\$208,171	5.1
All	89.6%	10.4%	597	87.6%	12.4%	757	58.3	\$1,058,349	5.4

Table 2: For comparison: State of the board in 2005

	Male Directors	Female Directors	Directors	Male Director-ships	Female Director-ships	Director-ships	Average Age	Average Pay	Average Tenure
Executive	22.5%	0.6%	23.1%	18.7%	0.5%	19.2%	53.9	\$3,120,026	7.2
Non-Executive	70.8%	8.4%	79.2%	70.3%	10.5%	80.8%	59.2	\$171,238	5.6
All	91.0%	9.0%	631	89.0%	11.0%	744	58.1	\$738,174	5.8

This level of representation of non-executive and independent non-executive directors has remained fairly steady over several years, based on the results of past ACSI studies.

Byrne said that the small steady increase in average board size noted in the 2007 study - the most common board size for a Top 100 company increased from eight to nine - might also be a positive development.

"Boards may be getting bigger as boards recognise that in order to perform the duties expected of them by investors they will need more directors," she said.

This year's study however also revealed several issues of concern for investors: For example, the average non-executive director's tenure of 5.1 years is substantially lower than the average tenure of an executive director (6.9 years).

Byrne said that this raised questions as to the ability of relatively inexperienced non-executive directors to adequately oversee executives with more experience of a company's operations, and the need for boards to ensure they renewed themselves in an orderly way.

"It is likely that a non-executive director who has been at a company for a relatively short period is going to be less willing to question an experienced CEO or executive director than a director who was involved with appointing that CEO," she said.

Also of concern is the continuing tendency for Top 100 boards to 'appoint from within'. The 2007 study found that 55 percent of non-executive directors appointed to a Top 100 company board during the 2007 financial year were already or had been in the past a director of a Top 100 company.

Table 3: 2007 Appointments of Directors to Top 100 Company Boards

2007 Appointments	Directors	Directorships	Directors from within Top 100 Company pool
Executives	20, 16.0%	20, 15.3%	7, 35.0%
Non-Executives	106, 84.8%	111, 84.7%	58, 54.7%
All	125	131	65, 52.0%

This pool of directors, with some exceptions, is overwhelmingly male. Women held 12.4 percent of all Top 100 company board seats and accounted for 10.4 percent of all Top 100 company directors.

Table 4: Proportions of Women on Boards of Top 100 Companies

	2007	2006	2005	2004	2003	2002
Board seats	12.4%	12.6%	11.1%	11.0%	11.1%	10.5%
Directors	10.4%	11.0%	9.2%	9.3%	9.3%	9.0%
Companies	75.3%	77.4%	68.5%	70.1%	69.6%	69.1%

This represented a slight fall from 2006, when women accounted for 11 percent of top 100 company directors and 12.6 percent of board seats. It also means that the proportion of female directors of top 100 companies has essentially not changed since 2002, when women accounted for 9 percent of directors and 10.5 percent of board seats. A total of 22 companies in the sample had no female board members.

The stalling in women's representation on boards does not mean that the boardroom is barred to all women; in fact, women are substantially more likely to be 'professional non-executive directors'; that is, hold two or more ASX listed company board seats.

In 2007, 61.3 percent of top 100 female directors held two or more board seats compared to 42.2 percent of men. In 2006, 58.8 percent of female top 100 company directors and 43.8 percent of men held two or more board seats.

Table 5: Multiple Directorships of Top 100 Company Directors

Directorships	2007		2006	
	Male	Female	Male	Female
2 or more	42.2%	61.3%	43.8%	58.8%
2 or more within Top 100 Companies	19.3%	37.1%	20.9%	35.3%

The research was carried out for ACSI by RiskMetrics Australia.

RiskMetrics' Martin Lawrence said that it was likely that shareholders would pay more attention to directors standing for reelection during the 2008 AGM season, commencing in September.

"Recent company results indicate Top 100 company boards could do better and there are several non-executive directors seeking reelection this year with poor records who are not a good advertisement for the notion of the professional non-executive director," he said.

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About the study:

The ACSI 2007 longitudinal study assesses the board compositions and pay of non-executive directors as disclosed by the 89 companies in the S&P/ASX 100 Index as at 30 June 2007. Listed trusts and pure companies domiciled overseas were excluded from the sample. Pay and board composition for each company is taken from the 2007 annual report - that is, the annual report for the financial year that ended in 2007 (including companies with a 31 December 2007 year-end).