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MEDIA RELEASE

Top 100 CEO Pay Research Released

Since 2001 the Australian Council of Superannuation Investors has monitored the CEO Pay in the top 100 Australian listed companies. ACSI engages ISS Governance Services to conduct the research. The full research is available at www.acsi.org.au

Over the period from 2001 to 2007, median fixed remuneration increased by 96.4 percent in total, or 11.9 percent per annum compound, even allowing for the slight decrease in median CEO fixed pay in 2007. Over the same period, average adult weekly ordinary time earnings increased by 32.3 percent, while the consumer price index increased by 17.7 percent.²

In the 2007 year 69 companies were analysed. Not all the S&P/ASX 100 constituents were included because:

- Some CEOs were appointed mid-way through the financial year, and so their disclosed remuneration was for less than 12 months. These CEOs were removed from the analysis so as not to distort the figures.
- Some of the entities in the S&P/ASX 100 index are trusts, 'managed investment schemes', or stapled securities rather than companies, that do not have executives; instead, they are managed by a fund-management company, 'responsible entity', or some other external manager.
- One company is a New Zealand based company, where remuneration disclosure requirements differ from those in Australia. Under the New Zealand requirements, only the total remuneration figure need be disclosed. As such, the components of remuneration could not be broken out, which required the exclusion of this company.

For the 69 CEOs included in the survey, average total pay was \$5.53 million, up from \$4.56 million in 2006 and \$3.77 million in 2005. Median Top 100 CEO pay also increased substantially to \$4.17 million in 2007, up from \$3.27 million in 2006 and \$3.09 million in 2005.

Fixed Pay

Few companies provide shareholders with explanations of fixed pay increases beyond generic disclosures stating fixed pay is reviewed annually with regard to movements in pay at other companies of a similar size.

ACSI believes that as base salary and other aspects of fixed remuneration are (by definition) not explicitly tied to the company's performance, companies should disclose clearly the reason or reasons behind a significant increase in base salary.

Short Term Incentives (STI)

Most Top 100 companies have a short-term incentive plan (STI) for their senior executives, designed to reward executives for performance across a single financial year (or in some cases, achieving milestones against strategic targets set over several years).

In 2007 - 88.4 percent of CEO's received a STI payment.

It is not common for a STIP's performance measures to relate to the company's share price or total shareholder return. Such plans usually have performance indicators relating to:

- (a) 'quantitative' metrics such as company-wide accounting performance (such as earnings before interest, depreciation, tax and amortisation), business-division performance, successful completion of major projects, etc; and
- (b) 'qualitative' metrics such as customer or employee satisfaction. An increasing trend has been for companies to also include measures relating to sustainability (such as occupational health and safety) in annual bonus programs (the most striking example is Westpac, where the former CEO, David Morgan, had part of his annual bonus assessed against Westpac retaining its ranking in an index of sustainable finance companies).

In 2007, the percentage of Top 100 companies CEOs who received an annual bonus dropped from 94.6 percent (the highest in the history of the ACSI longitudinal study, recorded in 2006) to 88.4 percent.

Whilst the number receiving bonus decreased but amount of bonuses increased:

- 2002- aggregate bonus paid to the 60 CEOs who received an STI was \$54.2 million.
- 2007-aggregate bonus received by the 61 executives who received an STI was \$132.87 million.

The amount of shareholders' money paid as annual bonuses to CEOs in the Top 100 companies has more than doubled over five years and the proportion of CEOs receiving a bonus has risen by 14.9 percent.

The increased number of CEOs receiving larger STI's between 2002 and 2007 has also coincided with increased shareholder scrutiny of the terms of equity grants made to CEOs.

In assessing annual bonuses most companies only provide general comments about the types of measures used in assessing requirements despite the requirements of the Corporations Act for them to provide a "detailed summary" of hurdles to all aspects of performance pay.

ACSI believes that as annual bonuses that are usually paid in cash, they should be linked to clear key performance requirements and targets and that where commercial confidentiality applies to performance objectives and targets, shareholders should be informed of the parameters adopted in the financial year for the bonus arrangements.

Long Term Incentives

In 2007, median total remuneration (including long-term incentives) was \$4.17 million, up 27.3 percent on the 2006 median of \$3.27 million. The average total remuneration of a Top 100 CEO increased in 2007 by 21.4 percent, from \$4.56 million to \$5.53 million. On an ex-News Corp basis, total average CEO pay has more than doubled since 2001.

The total pay including long-term incentive payments ranged from \$404,062 to \$33.49 million in 2007. The data indicates that 50 CEOs were paid less than \$5.34 million, below the mean figure; 16 CEOs were paid above the average but below \$13.88 million while three CEOs – Alan Moss of Macquarie, Phil Green of Babcock & Brown and Lowy of Westfield - received considerably more remuneration (\$15.89 million or more) than their peers.

When examining total pay including the value of long-term incentives, the accounting treatment of long-term incentives should be borne in mind. Australian accounting standards (reflecting IFRS) require the value of long-term equity incentives to be calculated in the year they are granted, and then allocated pro-rata in each remuneration report during the vesting period.

ACSI believes that the performance conditions for long-term incentive schemes should reward executives for contributing to long-term, above average corporate performance with forward-looking dual performance hurdles i.e. TRS and EPS hurdles which measure the Corporation's performance on an absolute and relative basis, to be satisfied before any share options or other long-term incentive instruments vest. Vesting periods should also be between 2 and 5 years.

Developments to date for the 2008 year

It is ACSI's view that if a company's remuneration report to shareholders is tackled in a way that isn't a cut and paste boiler plate response can provide a constructive basis to tell the story of the company. Some companies have taken this opportunity however some reports are still too complicated and thus those Boards have lost the ability of clearly explaining the nexus between pay and performance.

In general ACSI makes the following comments on reports to date.

- A number of companies grant senior executives substantial fixed and STI pay increases without any clear explanation for the increases. Whilst we appreciate some aspects of STI's are underpinned by commercial in confidence KPI's it is not clear what the parameters are for reward
- Inadequate disclosure of LTI performance hurdles so that it is hard to ascertain the alignment between the executive payment and long term company performance.
- Negligible performance hurdles that are not sufficiently stretching; For example on some occasions backward looking hurdles, A particular Earnings Per Share hurdle may not be demanding in light of analyst expectations and past performance and Some grants of options occur at the market price at the time of issue, with no hurdles other than continued service.
- Cash payments for LTI incentives are paid in cash which raises the issue of long term alignment.
- Vesting periods for incentives being too short or full vesting for median Long term incentives vesting on a change of control.

- While becoming less prevalent, some companies still permit excessive re-testing of incentives. We generally regard more than four re-tests as excessive.
- Whilst Listing rule 10.14 does not require companies to seek the approval of shareholders for any grants under its performance share plan for on market purchases. GPT, Qantas, Worley Parsons, Paperlinx, and Ramsay Healthcare have chosen to put such grants to shareholders voluntarily in the interests of good governance.
- ACSI supports the trend of termination arrangements that provide a maximum liquidated damages payout of no more than 12 months' base salary. However we still come across excessive pay outs upon termination, particularly where full vesting of unvested options even where an executive is being terminated for poor performance.

ACSI seeks the following minimum reforms to remuneration structures:

That as base salary and other aspects of fixed remuneration are (by definition) not explicitly tied to the company's performance; companies should disclose clearly the reason or reasons behind a significant increase in base salary.

That as annual bonuses that are usually paid in cash, they should be linked to clear key performance requirements and targets and that where commercial confidentiality applies to performance objectives and targets, shareholders should be informed of the parameters adopted in the financial year for the bonus arrangements.

That the performance conditions for long-term incentive schemes should reward executives for contributing to long-term, above average corporate performance with forward-looking dual performance hurdles which measure the Corporation's performance on an absolute and relative basis, to be satisfied before any share options or other long-term incentive instruments vest.

That all grants of all share incentives to key management personnel, irrespective of whether they are newly issued or acquired on market be approved in advance by shareholders;

That any payments or benefits that accrue to a member of key management personnel on cessation of employment, that are greater than 12 months fixed pay (based on average fixed pay over the duration and service in that position) be approved by shareholders after cessation of employment has occurred;

That the Corporations Act require the disclosure of a dollar figure of the maximum amount that could be paid by a company, should a board exercise all its discretion in favour of a member of key management personnel on cessation of employment;

That we support the compulsory disclosure remuneration consultants and the other arrangements they have with the company.

Attachment: ACSI Guidelines on Executive Pay

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Every two years the Australian Council of Superannuation Investors reviews its Corporate Governance Guidelines, which include guidelines on executive remuneration. The Guidelines were first released in 2002 and are complementary to regulations. The Guidelines have been provided to companies. ACSI will review these guidelines in 2009.

Guidelines on Executive Remuneration

CEO's are responsible for the future direction of the Corporation which ultimately affects shareholder return. CEO remuneration should promote superior performance of a Corporation against comparable peer group(s) over the long-term.

The Company Remuneration Report enables shareholders to convey a view on the total remuneration policy of the corporation via the casting of a 'non binding' vote. Since its inception in 2001 ACSI has said:

A properly structured remuneration scheme for executives should:

- be reasonable in remunerating executives in a way which is aligned with shareholder interests be measurable against key corporate performance indicators
- be sufficiently market-oriented, within levels of comparability for similar peer group corporations in the context of industry, size and business focus
- be properly and comprehensively described to shareholders including base cash remuneration, short-term bonuses and longer-term incentives or other rewards
- separately outline details relating to fixed remuneration, bonuses and incentives and share scheme arrangements
- be fully disclosed, valued and expensed in accordance with regulatory requirements, and
- be approved by shareholders.

Fixed Remuneration

The fixed component of executive remuneration should be relative to the scale of business as measured by sales, assets, number of employees and total market capitalisation. Shareholders should be informed of the rationale for fixed remuneration increases.

General increases in fixed remuneration for executives should have regard to the rate of increases applicable to the rest of the Corporation's workforce.

Variable Remuneration

Variable remuneration, such short term incentives paid as an annual bonus and long-term incentives such as share options or share-based incentives should be provided in reasonable amounts, be valued at a level that is a reasonable and an explainable multiple of the executive's fixed remuneration and be underpinned by clear and relevant performance hurdles.

Annual bonuses that are usually paid in cash should be linked to clear key performance requirements and targets. Where commercial confidentiality applies to performance objectives and targets, shareholders should be informed of the parameters adopted in the financial year for the bonus arrangements.

Other forms of variable long term rewards should be tied to stretching and demanding performance conditions, particularly where a Corporation makes an annual grant of options (or other long-term incentive awards) the value of which exceeds one times base salary.

Performance Conditions for Long-Term Incentive Schemes

The performance conditions for long-term incentive schemes should reward executives for contributing to long-term, above average corporate performance with forward-looking dual performance hurdles which measure the Corporation's performance on an absolute and relative basis, to be satisfied before any share options or other long-term incentive instruments vest.

ACSI does not support remuneration schemes, or proposed grants of incentives under them, where performance hurdles are not sufficiently demanding. This is often a case-by-case judgment; however, the following guidance is of general application:

- where a relative hurdle is used, there should be no vesting unless the Corporation's performance is ahead of at least half of peer Corporations
- the number of options (or other long-term incentive instruments) that vest increase on a sliding scale according to the level of corporate performance achieved. This is preferable to a hurdle that allows for all options to vest for median, or slightly better than median, performance
- where a share incentive scheme provides for 'performance rights', 'performance shares', 'deferred shares' and other zero exercise price options (zepos) with an exercise price of zero, it is particularly important that challenging performance hurdles are in place. This is because these instruments lack the inherent share-price appreciation hurdle that traditional options possess. ACSI in general would not consider an absolute accounting based hurdle stretching where the scheme provides zepos
- Where performance conditions or hurdles have not been met at the vesting date, the ability to 're-test' the hurdle on a future date or dates is now an unacceptable aspect of corporate governance in some countries.
- ACSI does not support loans to be made to executives on a non-commercial basis, so that they may take up shares.

ACSI does not support pay for failure

Corporations should not pay excessive and unreasonable termination payments in circumstances where the termination is a consequence of poor and inadequate performance.

In circumstances where an executive is dismissed for underperformance all unvested performance and incentive-related elements of the executive's remuneration package should be forfeited.

There should be a clearly defined, and not excessive, time-frame during which vested options and other incentive instruments may be exercised, provided that performance hurdles have been satisfied prior to termination.

ASX Listing Rule 3.1 requires the Corporation to disclose the contractual terms (including termination conditions) of appointments. Corporations should also include the potential value of the termination payout for the senior executive, in order to eliminate the element of surprise for shareholders in the future.

ACSI supports the introduction of UK-style proposals that provide for the outstanding term of a contract to be paid in 'phased' termination payments that cease when an executive finds other employment.

ACSI supports legislative reform that would provide shareholders with a greater say in termination benefit payments. Existing caps currently applicable under sections 200F and 200G of the Corporations Act, that allow for shareholders' approval of termination payments that exceed seven-times annual remuneration are considered to be too generous. ACSI considers that termination benefits worth more than a 12 months' base salary should require approval by shareholders.

Retention Payments

If retention benefits or sign-on benefits (including golden handshakes) are made to executives, whether upon joining or during the executive's tenure, the benefits should be disclosed and subject to a holding lock of between one to three years.

Share Option Schemes

Share option schemes that provide options in reasonable amounts and with challenging performance hurdles are regarded as a reasonable incentive for executives. The key considerations for option schemes are that they should have reasonable conditions of issue, be issued in reasonable quantities, and that there is proper disclosure, valuation and expensing of these arrangements.

The Board should ensure that grants of options (or other long-term incentive awards) are made regularly (e.g. annually) in preference to one large tranche every three or four years.

This is designed to:

- reduce the risk of unanticipated outcomes that arise out of share price volatility and cyclical factors
- reduce the possibility that a limit on existing options encourages early exercise
- allow the adoption of a single performance measurement period, and
- reduce the possibility of 'underwater' options, where the share price falls below the exercise price.

The exercise price for options should not be less than the average of the share price on the five days of trading before the options are granted. Scheme rules should not be altered to make it easier for the executive to exercise options where there has been a fall in share price or performance (i.e. re-pricing of options and adjustment of targets). Option scheme rules should not give the Board, a Board Committee, or the plan administrator discretion to lower the exercise price of options that have already been awarded, where the market price of the shares has fallen below the original exercise price.

Grants of options and other long-term incentive instruments should incorporate a minimum acceptable vesting period of at least three years. Where a scheme utilises phased vesting schedules, that is, where options or rights vest in tranches (e.g. one-third of options vest after three years; one-third vest after four years; and one-third vest after five years), then each vesting of awards should be linked to sustained performance requirements.

A holding lock is a requirement that shares received on exercise of options, or after performance rights vest, must be retained for a further defined period of time. ACSI supports a holding lock period of between one to three years.

Disclosure of options

The following information should be disclosed:

- the expiry date for options or other long-term incentive instruments, when a grant of options (or other long-term incentive instruments) is put to shareholders for approval
- the number of shares available or eligible for issue and actually issued under the option scheme or share-based incentive scheme
- the value and number of share options and shares granted, exercised and outstanding under all incentive plans, in accordance with the Corporations Act
- the value of those options or instruments where shareholder approval is being sought for a particular grant of options or other long-term incentive instruments
- the valuation method used to value options. In particular, any discount factor applied as part of the valuation (e.g. to take account of the possibility of performance hurdles not being satisfied in whole or in part, or to take account of executive leaving the Corporation and surrendering options)
- the exercise price of share options (or the method of determining it), and
- the Corporation's policy with regard to the treatment of dividend payments on unearned shares that form part of any long-term incentive scheme.

Valuation and expensing of options

Corporations should utilise an internationally recognised method of valuation in order to meet the requirements of the Corporations Act and Accounting Standards.

Grants made under share incentive and option schemes should be properly expensed in Corporations' financial statements in accordance with the appropriate accounting standards. Boards should ensure that they are sufficiently apprised of the requirements of these standards and apply them accordingly in the relevant disclosure provisions in Annual Reports.

In general, prior shareholder approval should be required where any single share or share option scheme could result in shares equal to 5% or greater of total issued ordinary shares being allocated. Generally, the total number of shares and options for executives and employees, under all schemes, should not exceed 10%. ACSI will consider, on a case by case basis, share and share option schemes that provide for a total potential dilution (under all the Corporation's schemes) of up to 10%.

ACSI will not support share or share option plans, or grants under those plans, where the 'flow rate' (i.e. the total number of options and shares granted in any one year, expressed as a percentage of total issued ordinary shares) exceeds 2%. ACSI will consider, on a case by case basis, plans, and grants under plans, where the flow rate exceeds 1% but is less than 2%. A flow rate of less than 1% is generally acceptable.

Change of Corporate Control

ACSI does not support the full vesting of options and performance rights in the event of a takeover or change of control in the Corporation, irrespective of how far into the vesting period the options are and whether or not performance hurdles have been satisfied.

Option Hedging

ACSI does not support Corporations allowing their executives to obtain financial products to remove the risk associated with share options in their remuneration package where they have not vested. This practice negates the rationale for variable remuneration schemes that should apply when an executive has contributed to above average corporate performance.

Director Remuneration and Share Ownership

All forms of remuneration paid to Directors should be disclosed in accordance with Corporations Act and ASX Listing Rule requirements. Corporations are encouraged to disclose how a proposed aggregate Non-Executive Director fee cap will be apportioned to existing Non- Executive Directors when an increase in the fee cap is being sought. ACSI expects that the fee cap will cover all fees paid to Directors, including base fees, committee fees and superannuation.

Independent Non-Executive Directors should be encouraged to acquire shares from an allocation of fees paid for undertaking their directorship.

ACSI does not support the creation of a retirement benefit plan for Independent Non-Executive Directors (excluding Superannuation Guarantee payments). Where, for historical reasons, a retirement benefit plan is in place ACSI would support Corporations freezing those benefits (with appropriate indexation).

All monetary arrangements with Directors for services outside normal Board activities should be approved by the Remuneration Committee of the Board.

Extract from the ACSI Corporate governance Guidelines – June 2007