



Australian Council of Super Investors Inc.

CEO Pay in the Top 100 Companies: 2006

**Research Paper
Prepared by ISS Governance Services
Risk Metrics Group**

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EXECUTIVE SUMMARY

ISS Governance Services was commissioned by the Australian Council of Super Investors' (ACSI) to conduct an empirical analysis of CEO pay in the Top 100 listed Australian companies for the 2006 financial year. This paper reports the findings of the study.

In several areas, the study revisits issues researched for ACSI for the 2001 to 2005 financial years.¹ Comparative statistics are provided.

For the 74 CEOs included in the survey, average total pay was \$4.56 million, up substantially from \$3.77 million in 2005 and \$3.09 million in 2004. Median Top 100 CEO pay also increased, from \$3.07 million in 2004 and \$3.09 million in 2005 to \$3.27 million in 2006.²

Average annual fixed remuneration for a Top 100 company CEO increased again between 2005 and 2006, from \$1.53 million to \$1.80 million, or 17.1%.

The average short term incentive (STI) received by a Top 100 company CEO also increased between 2005 and 2006, from \$1.36 million to \$1.66 million, or by 21.4% (conditional on an STI being received). This followed a 5.5% average increase between 2004 and 2005 and a 17.3% average increase between 2003 and 2004. The median STI (of those CEOs who received an STI payment), on the other hand, remained relatively constant in 2006, actually decreasing by 0.5%, or from \$1 million to \$995,000. However, this followed a sharp increase in the median between 2004 and 2005 of 11.1%.

The nature of the longitudinal study assesses the remuneration of CEOs of the Top 100 companies, rather than the year-on-year changes of individuals' remuneration. On a company-by-company comparison, of the 59 companies included in both the 2005 and 2006 longitudinal studies, 52 saw the fixed remuneration of their CEO increase, only five saw Australian dollar fixed remuneration for the CEO decrease (in two cases this was due to the appreciation of the Australian dollar between 2005 and 2006 decreasing the Australian dollar value of CEO pay in US dollars) and two CEOs had the same level of fixed remuneration. A similar pattern is discernable in STI payments – 41 of the 59 CEOs included in the 2005 and 2006 studies received a higher STI in 2006 compared with 2005, 17 received a lower STI and one had no change in their STI. This suggests that the rises in fixed remuneration and STI would in fact have been higher but for the addition of new companies to the sample, usually at the lower end of the S&P/ASX 100 (companies with overall lower levels of remuneration), although it is also these smaller companies that are most likely to drop out of the Top 100 year-to-year.

The 2006 study has also adjusted overall remuneration to reflect the distorting effect of News Corporation on comparisons between remuneration of Top 100 CEOs in 2004 and 2005: The departure of News Corporation from the S&P/ASX 100 Index between 2004 and 2005 means that the numbers for prior years, in particular for average levels of remuneration, were increased by the very large amounts received by the top-paid executive at News Corp. The 2006 report, as was the case in the 2005 report, when making comparisons between years, unless otherwise stated, is referring to numbers on an ex-News Corp basis. All tables in the report however also include average and median values, and various other statistics (in brackets) with News Corp included.

There was relatively little change in the Top 10 highest paid CEOs in 2006 compared with 2005. Of the 10 CEOs in the 2005 Top 10 (all of whom were still Top 100 company CEOs in 2006), seven were again part of the Top 10 most highly paid.

¹ ISS Australia, *CEO Pay in the Top 100 Companies: 2005* (Research Paper prepared for ACSI, September 2006); ISS Proxy Australia, *CEO Pay in the Top 100 Companies: 2004* (Research Paper prepared by for ACSI, September 2005); Institutional Analysis, *CEO Pay in the Top 100 Companies: 2003* (Research Paper prepared for ACSI, June 2004); Institutional Analysis, *CEO Pay in the Top 100 Companies: 2002* (Research Paper prepared for ACSI, May 2003); Institutional Analysis, *Board Composition and Pay in the Top 100 Companies: 2001* (Research Paper prepared for ACSI, January 2002), Section 9.

² These numbers have been standardised to adjust for the departure of News Corp from the index.

The other three CEOs from the 2005 study were ranked 11th, 14th and 17th in the 2006 study based on total remuneration. Of the Top 10 CEOs in the 2005 survey, eight saw their remuneration in 2006 increase by amounts ranging between 1.5% and 37.4%. Of the two CEOs whose overall pay fell between 2005 and 2006, the fall was due to one-off events: The paying out of retirement benefits in the prior year and a negative accounting value for long term incentives. These two 2005 Top 10 CEOs who saw their remuneration decrease experienced falls of 12.9% and 35.4%.

To be part of the Top 10 CEOs in 2005, a CEO had to receive \$6.49 million or more; in 2006 the threshold for entry increased to \$8.41 million. The total remuneration of the highest-paid CEO of a Top 100 company rose between 2005 and 2006, from \$18.55 million to \$21.21 million (Macquarie's Allan Moss).