CEO Pay in the Top 100 Companies: 2009

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acsi
AUSTRALIAN COUNCIL
OF SUPER INVESTORS

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About the Authors

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The Australian Council of Super Investors ("ACSI") provides independent research and advice to superannuation funds on the environmental, social and corporate governance risks of companies in which they invest.

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Foreword

The Australian Council of Superannuation Investors (ACSI) was formed in 2001 to provide advice to its member superannuation funds on governance issues within their investment portfolios.

ACSI undertakes research to inform ourselves of key governance related matters and to ensure that our views and positions are soundly based on facts.

CEOs are responsible for the future direction of the Corporation which ultimately affect shareholder return. CEO remuneration should promote superior performance against comparable per group(s) over the long term.

ACSI members invest significant amounts of retirement savings in the ASX 100. The remuneration of the CEOs of these companies provides insight into the alignment of the interests of shareholders and the relationship between boards and management. The remuneration practice of an organisation is one of the few insights into the operation of the governance framework of the company. The ASX100 companies are also seen to be the leaders in the corporate community and so in our view should lead by example.

Since 2002 as part of its due diligence of the ASX 100, ACSI has tracked the changes to pay of the CEOs of the Top 100 Companies.

ACSI believes that a properly structured remuneration scheme should be:

- reasonable in remunerating executives in a way which is aligned with shareholder interests;
- measurable against key corporate performance indictors;
- sufficiently market-orientated, within levels of comparability of similar peer group corporations in the context of industry, size and business focus;
- properly and comprehensively described to shareholders including base cash remuneration; short term bonuses and longer term incentives or other rewards;
- fully disclosed, valued and expensed in accordance with regulatory requirements; and,
- approved by shareholders

Unfortunately, the expectations of ACSI and its members have not always been met. Over the past 8 years ACSI has highlighted both best and worst practice. One of the facts that always surprises us is the continual increases in base pay of some CEOs over and above what has been paid to their employees without any change to the work value of their positions. We also find that some CEOs are paid both short and long term bonuses without reference to sufficiently challenging hurdles or shareholder return. ACSI finds both of these practices unacceptable and where they occur we will continue to recommend a vote against the remuneration report.

We hope that by the continual provision of factual data, we will contribute to achieving best practice remuneration for Australian CEOs.

Ann Byrne
CEO

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1. Executive Summary

This is the ninth year of the Australian Council of Super Investors' ("ACSI") study of CEO pay in Australia's largest 100 listed companies. As in prior years the research has been prepared for ACSI by ISS Governance Services (formerly RiskMetrics). A study of CEO pay in the Top 100 covers more than 90 percent of the S&P/ASX 300 by market capitalisation and the CEOs seen as the most senior (and highly paid) corporate leaders in Australia. ACSI's member superannuation funds also hold significant investments in these companies on behalf of their members and the way in which CEOs of these companies are remunerated provides ACSI members with vital information about incentives, alignment with shareholders and the relationship between boards and executive teams.

As in past years the study covers only those CEOs in office for the full financial year ending in 2009 of those companies that were members of the S&P/ASX 100 as at 30 June 2009. A total of 68 CEOs are included in the 2009 sample, down from 70 in 2008.

The global financial crisis had a more muted impact on CEO pay in the S&P/ASX 100 in 2009 than on shareholder returns. The absence of one former CEO from the 2009 sample, Macquarie's Allan Moss, declines in the total pay of a handful of other very highly paid CEOs and the inclusion of one CEO in the sample with negative total disclosed remuneration led to a decline in average total disclosed CEO pay (the negative total pay occurred as equity based payment expenses incurred in prior years were reversed). This fell by 5.6 percent, from $5.150 million in 2008 to $4.877 million in 2009. The impact of outliers on the 2009 average is apparent from the decline of just 0.2 percent in median total disclosed CEO pay, from $4.049 million to $4.04 million. Median total pay has declined less than 5 percent from the boom year of 2007.

On a cash pay basis, where the value of equity incentives and other long term incentives is excluded, the impact of outliers saw average cash pay decline 10.2 percent, to $3.353 million in 2009 while median pay declined 1.8 percent from the record $2.904 million in 2008 to $2.853 million. The decline in average cash pay was due to a decline in average bonuses as the number of very large bonuses fell – in large part again due to the departure of outliers from the 2009 sample - and the number of CEOs receiving a bonus: The average bonus in 2009 for a CEO who received a bonus was $1.546 million, down 19.9 percent from 2008 with the proportion of CEOs receiving a bonus decreasing from 92.9 percent in 2008 to 82.4 percent in 2009. The median bonus for CEOs receiving a bonus in 2009 actually increased 3.5 percent from 2008 to $1.207 million. The number of CEOs receiving a bonus greater than $2 million also increased, from 22 percent of the 2008 sample to 25 percent of the 2009 sample.

The only component of CEO pay where both the median and average increased was fixed pay. For a S&P/ASX 100 CEO in 2009 the average fixed pay topped $2 million for the first time, increasing 3.7 percent to $2.02 million while the median increased 3.5 percent to $1.808 million. Average fixed pay has increased in every year of the longitudinal study.

Also consistent with past trends was the 'incumbency effect': As in 2008 and 2007, the 48 CEOs in the sample in both 2008 and 2009 had higher average and median base pay, bonuses, cash pay and total disclosed remuneration than the whole sample.

In 2009 the highest paid CEO in the sample was Westfield's Frank Lowy, who was ranked third in the 2008 sample, with total pay of $14.932 million. In 2008 the highest paid CEO in the sample was Macquarie's Allan Moss, with total pay of $24.755 million. Moss was not part of the 2009 sample as he retired in May 2009. Indicating the impact of the removal of highly paid outliers on averages in the 2009 sample, the entry point for the 10 highest paid CEOs in 2009 increased over 2008, from $7.809 million to $8.126 million.

Total payments to the 13 CEOs who departed an S&P/ASX 100 company in the 2009 financial year (outside of superannuation and previously accrued bonuses) were $34.564 million, down from the $83.028 million paid to 13 departing CEOs in the 2008 sample. The average cessation payment fell from $6.387 million in 2008 to $2.659 million in 2009 largely due to there being no termination payments with a value of greater than $10 million in 2009 compared with four in 2008. In 2009 the largest payment on departure was to former Telstra CEO Sol Trujillo who received $6.386 million on his departure from the company.

2. CEO Pay in the Top 100 Companies: Aggregate Statistics

This section reviews the pay of the most senior executives in the S&P/ASX 100 companies, over the financial years 2001 to 2009. Data was obtained only from annual reports as disclosed under section 300A of the Corporations Act and AASB 124.

68 listed entities 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 as at 30 June 2009 were externally managed and so do not disclose remuneration for their executive team as they are not employees of the listed entity.
- Companies such as News Corporation and Telecom NZ which are domiciled outside of Australia and hence subject to different remuneration disclosure requirements are excluded from the sample. One Dutch domiciled company (as at 30 June 2009), James Hardie, has adapted Australian remuneration disclosures and is therefore included, as are Lihir Gold and Oil search which are domiciled in Papua New Guinea.
- Another two companies – ABB Grains and Lion Nathan – which were members of the S&P/ASX 100 as at 30 June 2009 but were acquired prior to completing their 2009 financial reports are also excluded from the sample. Lion Nathan was part of the 2008 sample.

All pay figures are in Australian dollars and as disclosed in the company's annual report. If the listed entity discloses pay in another currency (typically US dollars) these figures have been converted into AUD using the average exchange rate for the relevant financial year.

This report refers to 'CEO pay' although at some listed entities the executive whose pay was analysed is not the person carrying the formal title of CEO. This could be, for example, because the company has an executive chairperson and a separate CEO, and the executive chairperson is the effective leader of the company's management. As an example, Westfield's Frank Lowy and Harvey Norman's Gerry Harvey are treated as CEOs for the purposes of this study despite being executive chairpersons of their respective listed entities.

2.1 Breakdown of components and 2001-2009 change analysis

In this section the following elements of remuneration are analysed:

- fixed pay — the non-variable element of the CEOs remuneration.
- short-term incentive — the annual bonus paid to the CEO in the financial year.
- total remuneration excluding long-term incentive.
- total remuneration including long-term incentive.

2.1.1 Fixed remuneration

Fixed remuneration is those components of a CEOs pay which do not vary with performance.

These often include:

- Base (cash) salary;
- Superannuation, including the increased value of defined benefit pension accruals;
- Allowances, including leave accruals, and
- Non-cash benefits.

Of these, base salary is invariably the largest component, accounting for 87.7 percent, up from 85.6 percent in 2008. The importance of base salary as a remuneration concept has increased during 2009 with the changes to the termination payment approval thresholds in the Corporations Act which now require termination payments above a year's base salary to senior executives and directors to require shareholder approval (up from the previous requirement of any payment greater than seven times total remuneration).[1]

The tables below show fixed pay statistics for the period 2001 to 2009. In 2009, both median and average fixed pay increased, with the average increasing 3.7 percent to $2.02 million and the median 3.5 percent to $1.808 million. The rate of increase in fixed pay slowed in 2009 relative to 2008 when average fixed pay increased 6.2 percent and median fixed pay 13.8 percent.

CEO wage growth in context

Over the period 2001 to 2009, median CEO fixed pay increased 131.4 percent while average adult weekly ordinary time earnings (AWOTE) increased 46 percent, and the consumer price index 24.8 percent.[2] AWOTE actually increased faster than median and average CEO pay from 2008 to 2009, increasing 5.9 percent.

Many listed entities announced base pay freezes in response to the global financial crisis. This is not fully apparent in this paper as 51 of the 68 entities in the 2009 sample have years ending on or before 31 July meaning pay reviews for the 2009 financial year were presumably completed before the onset of the worst of the crisis in the last months of 2008. Base pay freezes for these entities are likely to be apparent in the 2010 study. The impact of the crisis on base pay is apparent for those entities with a year end after 31 July and with the same CEO in office in both 2008 and 2009: For this group of 12 CEOs, base pay decreased by 0.1 percent in the 2009 year compared with a 7.1 percent pay increase for the 36 incumbent CEOs of entities with a year ending prior to 1 August.

There continues to be a broad range of fixed pay for S&P/ASX 100 CEOs: In 2009, the lowest fixed pay received by a Top 100 CEO was $223,877; as in 2008 this was Andrew Forrest (his base salary increased 12.7 percent in 2009). The recipient of the highest annual base pay in 2009 was also unchanged from 2008 with Westfield's Frank Lowy receiving $8.982 million, down 2.4 percent from 2008, largely due to decreased usage of corporate aircraft in 2009. Both men also continue to have a substantial ownership interest in the listed entities they lead.

[1] The changes also tightened various exemptions to the former provisions which did not define total remuneration.

[2] Both figures are from the Australian Bureau of Statistics; the wages figure is from 31 May 2001 to 31 May 2009; the CPI figure is the eight capital cities CPI index and is from 30 June 2001 to 30 June 2009. Please see www.abs.gov.au for additional information, catalogue numbers 6302.0 and 6401.0 respectively.

As shown in figure 2.1, most Top 100 CEOs –40 of the 68 CEOs - receive fixed pay between $1.2 and $2.4 million per annum (40 of the 70 CEOs in the 2008 study received pay in this range). The number of CEOs receiving less than $1.2 million declined, from 18 in 2008 to 12 in 2009. The number of CEOs receiving base pay of more than $3 million increased relative to 2008, with 10 of the 68 in 2009 receiving base pay in excess of $3 million compared to eight of 70 in 2008.

As in prior years, Westfield's Frank Lowy received base pay that was substantially higher ($4.8 million) than the next highest paid CEO in the sample. If Lowy's fixed pay is removed from the 2009 sample the average Top 100 CEO base pay declines to $1.916 million and his 2009 fixed pay was larger than that of the 11 lowest paid Top 100 CEOs combined (in 2008 his fixed pay was larger than that of the 12 lowest paid Top 100 CEOs combined).

	2005	**2006**	**2007**	**2008**	**2009**
Average	$1,533,231	$1,795,658	$1,833,228	$1,947,350	$2,019,764
Median	$1,373,437	$1,579,292	$1,533,948	$1,745,856	$1,807,561
Minimum	$494,531	$394,769	$321,331	$198,648	$223,877
Maximum	$8,789,826	$8,888,197	$8,885,278	$9,204,760	$8,981,956
Change in Average	+$116,354	+$262,427	+$37,570	+$114,122	+$72,414

Table 2.1: Fixed remuneration 2005 – 2009 comparison

	2001	**2002**	**2003**	**2004**
Average	$888,407 *$1,008,012*	$984,045 $1,027,288	$1,361,769 *$1,424,285*	$1,416,877 *$1,554,410*
Median	$780,975 *$781,788*	$903,838 *$914,330*	$1,136,537 *$1,137,769*	$1,353,000 *$1,376,798*
Minimum	$52,055	$50,575	$345,056	$410,437
Maximum	$2,650,565 *$8,543,137*	$7,938,000 *$7,938,000*	$6,716,040 *$13,486,153*	$4,084,000 *$11,731,875*
Change in Average	*N/A*	+$95,638 *+$19,276*	+$377,724 *+$396,997*	+$55,108 *+$130,125*

Table 2.2: Fixed remuneration 2001 – 2004 comparison (figures in italics include News Corporation)

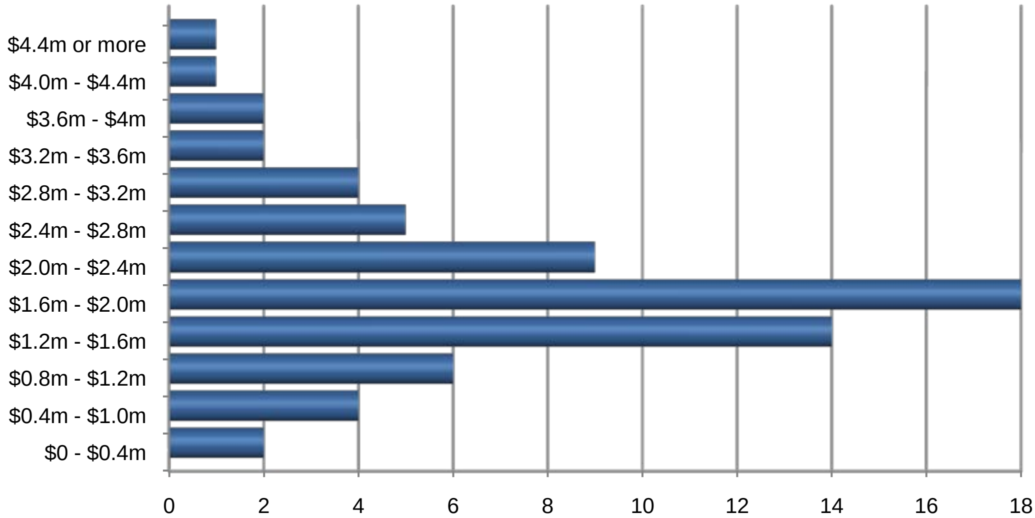

Figure 2.1: Distribution of fixed remuneration for Top 100 CEOs in 2009

2.1.2 Short-term incentive

A near universal feature of pay for senior executives at listed entities is an annual bonus. Of the 68 entities in the 2009 sample, 66 operated annual bonus schemes for their CEO (the exceptions being Consolidated Media and Primary Health Care). Most schemes purport to reward executives for achieving specific financial and non-financial targets in the financial year.

The impact of the global financial crisis on bonus payments to CEOs of S&P/ASX 100 entities was relatively modest. Despite the broader economic consequences of the financial market convulsions at the end of 2008 and beginning of 2009 being a feature of the 2009 financial years of all entities in the sample, bonuses were still paid at 56 of the 68 sample entities – and as noted above, two of the 68 sample entities did not operate a bonus scheme for their CEO in 2009.[3] In 2008, 65 of the 70 sample entities paid bonuses (two of the five non-payers did not operate bonus schemes and the other three cases involved CEOs departing shortly after the end of the financial year).

Tables 2.3 and 2.4 show movements in average and median bonuses over the nine years of the ACSI CEO pay study. The average bonus for an S&P/ASX 100 CEO in 2009 who received a bonus declined 19.9 percent from 2008 to $1.546 million, the lowest average bonus since 2005. If CEOs who did not receive a bonus are included in the total for both years the average bonus declined 29 percent, from $1.792 million to $1.273 million.

As shown by the 3.3 percent increase in the median bonus in 2009, from $1.168 million to $1.207 million, the decline in average bonuses was driven by a fall in the number of very high annual bonuses. In fact, had the $27.224 million bonus paid to former Macquarie CEO Allan Moss been included in the 2009 sample, the average bonus paid to those CEOs who received a bonus would have increased slightly (to $1.996 million), although it should be noted that Moss' replacement as CEO, Nicholas Moore (excluded from the 2009 sample as he was CEO for just over 10 months of Macquarie's 2009 financial year), received a much lower bonus in 2009 than Moss did in 2008 (and indeed a much lower bonus than Moore himself received in 2008).

[3] This has also resulted in the 2009 'total pay excluding LTI' figure being restated. The other 10 S&P/ASX 100 entities that did not pay a bonus to the CEO in 2009 were Ansell, Bluescope Steel, Boral, Brambles, Crown, Goodman Fielder, Harvey Norman, OneSteel and Paladin. At Boral and Brambles new CEOs took over shortly after the end of the 2009 financial year.

The general small increase in bonuses across the S&P/ASX 100 is also apparent from the fact that even if the CEOs who received no bonus are included in the 2008 and 2009 samples the median bonus still rose, from $1.067 million in 2008 to $1.105 million in 2009. Median bonuses for Top 100 CEOs who received a bonus in 2009, at $1.207 million, were the second highest in the history of the longitudinal study behind only the 2007 record median of $1.334 million. In interpreting the disclosures in the tables below it should also be noted that disclosed bonuses for 2009 often exclude the value of the deferred equity component of the bonus. This is because depending on the way in which this deferred equity component is delivered it is not included in 2009 remuneration disclosures but instead included in share based payments expenses for future years, with the estimated value of the deferred equity component then amortised over the vesting period. A handful of companies in the sample, such as Commonwealth Bank, structure bonuses in such a way that the deferred share component was disclosed in the 2009 remuneration report; for others with deferred equity arrangements the value of the deferred share component relating to 2009 will be disclosed as part of share based payments amounts in future years.

Figure 2.2 indicates the distribution of bonuses paid in 2009 to those Top 100 CEOs who received a bonus. In 2009 19 of the 56 bonus recipients (34 percent) received less than $1 million compared to 28 of 65 in 2008 (43 percent). Another 20 (36 percent) received between $1 million and $2 million (2008: 35 percent) with 17 (30 percent) receiving bonuses of more than $2 million (2008: 22 percent or 14 individuals). The increase in the number of CEOs receiving bonuses of greater than $2 million in 2009 appears largely due to changes in the sample between 2008 and 2009: Of the 17 who received bonuses of more than $2 million in 2009, five were not in the 2008 sample. The CEOs of Transurban, Westpac, BHP Billiton, Sims Group and Downer EDI were all appointed during the 2008 year and were therefore not included in the 2008 sample. Of the 12 CEOs who received a bonus of more than $2 million in 2009, seven – ANZ's Mike Smith, CBA's Ralph Norris, David Jones' Mark McInnes, Leighton Holdings' Wal King, QBE's Frank O'Halloran, Westfield's Frank Lowy and Woolworths' Mike Luscombe - also received a bonus of more than $2 million in 2008. The remaining five receiving a bonus of greater than $2 million in 2009 were AMP's Craig Dunn, Coca-Cola Amatil's Terry Davis, Origin Energy's Grant King, Woodside's Don Voelte and United Group's Richard Leupen.

In 2009 the largest bonus, of $5.95 million, was paid to Westfield's Frank Lowy (he received $7 million in 2008, the third highest bonus in the 2008 study behind Moss and Leighton's King) and the lowest bonus, of $15,418, was paid to Fortescue's Andrew Forrest. In 2008, four CEOs received bonuses greater than $5 million – Lowy, Moss, Leighton's King, Telstra's former CEO Sol Trujillo - while in 2009 only Lowy and King received a bonus of $5 million or more.

	2005	2006	2007	2008	2009
Average	$1,363,934	$1,678,662	$2,178,274	$1,929,464[4]	$1,545,636
Median	$1,000,000	$1,005,890	$1,334,200	$1,167,645	$1,206,662
Minimum	$75,000	$100,000	$750,000	$202,293	$15,418
Maximum	$13,892,889	$15,833,577	$25,615,987	$27,223,798	$5,950,000
Change in Average	+$119,733	+$314,728	+$499,612	-$227,288	-$383,828

Table 2.3: Annual bonus 2005 – 2009 comparison; conditional on a bonus being paid

[4] The 2008 average bonus statistic has been restated from the $1,950,986 disclosed in the 2008 study because $1,398,927 in disclosed share based payment value relating to the long term incentive for Stockland CEO Matthew Quinn was incorrectly included in the share section of the annual bonus totals. This has also resulted in the 2009 'total pay excluding LTI' figure being restated.

	2001	2002	2003	2004
Average	$769,125 *$871,389*	$902,969 *$937,347*	$1,102,603 *$1,283,330*	$1,293,093 *$1,671,608*
Median	$377,936 *$386,805*	$468,011 *$475,000*	$725,000 *$735,129*	$900,000 *$911,803*
Minimum	$73,000	$50,000	$88,000	$126,000
Maximum	$6,239,739 *$6,239,739*	$10,944,000 *$10,944,000*	$12,381,000 *$12,381,000*	$13,400,000 *$17,980,437*
Change in Average	*N/A*	+$133,844 *+$65,958*	+$199,634 *+$345,983*	+$190,490 *+$388,278*

Table 2.4: Short-term incentive: 2001-2004 comparison (conditional upon a bonus having been paid; figures in italics include News Corporation)

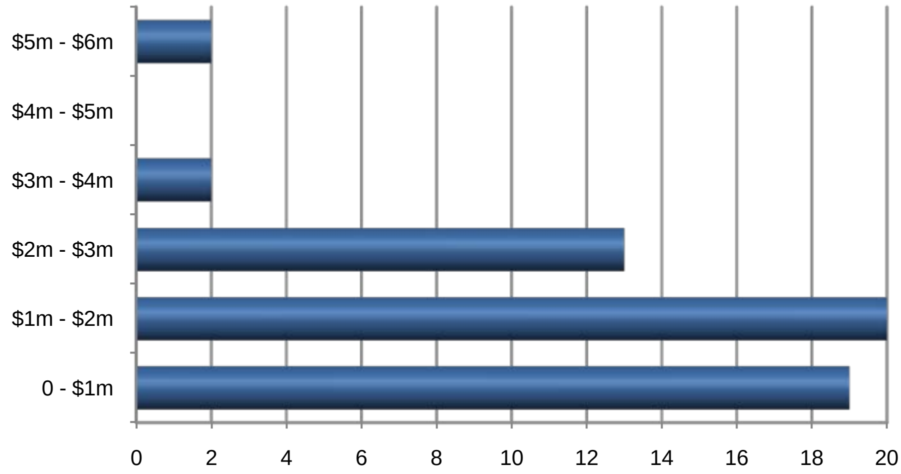

Figure 2.2: Distribution of short term incentive payments (conditional on STI payment being made)

2.1.3 Total remuneration excluding long-term incentive

This section discusses the value of total CEO pay excluding the value of equity incentives (described as 'cash pay' below). Comparing pay excluding the disclosed equity incentive value is useful from a historical perspective given many companies chose not to disclose a value for share based payments prior to 2003 (or accounted for the value of grants in various ways). It is also useful as it removes the volatility introduced by the valuation of share based payments under AASB 2 which require listed entities to disclose the 'fair value' of equity incentives held by senior executives amortised over the vesting period. This means that the portion of a senior executive's remuneration consisting of a share based payment value typically includes a proportion of the value of equity grants made over several different years.

2.1.3.1 The trouble with share based payments disclosures

Further volatility has been introduced by the differential valuation requirements for share based payments imposed by AASB 2 ***depending on the type of performance hurdle used and the method of settlement*****.** If a grant of equity is settled with equity and is subject to what are described as 'market conditions' (ie. related to share price) then the listed entity estimates a fair value at the time of grant incorporating the risk of forfeiture and then amortises this amount over the vesting period. For equity settled 'non-market conditions' the fair value takes no account of the risk of forfeiture and instead adjusts the number of incentives included in disclosures until vesting (or forfeiture) is complete based on an estimate at the time the accounts are prepared. This means that Goodman Group, for example, which in 2008 included a value for equity incentives subject to profit-based hurdles granted to its CEO Greg Goodman of $1.572 million in its annual report, recorded a negative value for long term incentives in the 2009 year of negative $2.426 million as the board reversed previously accrued expenses relating to the LTI after determining the hurdles were "unlikely to be achieved".[5] This meant that for the 2009 year Goodman's total remuneration value, inclusive of the value of equity incentives, was negative $961,853.

Further volatility is then introduced for equity incentives that are able to be cash-settled. These are required under AASB 2 (which is itself based on IFRS 2) to be revalued at each balance date. For example, Rio Tinto, which can opt to settle in cash instead of shares grants under its Mining Companies Comparative Plan, was required to revalue the zero exercise price options granted under this plan to its CEO, Tom Albanese, on both 31 December 2008 and 31 December 2009: At the end of 2008, Rio's depressed share price meant the fair value of the grants had declined so much that a negative value was recorded – US$2.837 million – while a recovery in the share price by the end of 2009 led to a positive value being recognised of US$3.915 million in the 2009 remuneration disclosures.[6]

There has also been considerable commentary over the past two years on the misleading nature of executive pay disclosures due to the requirements of valuing equity grants under AASB 2. A significant number of listed entities in 2009 sought to report 'realised' remuneration in non-statutory tables to shareholders showing the value of payments actually made to executives in the financial year and removing the impact of the 'fair value' of unvested share awards from disclosure (such companies also provided statutory disclosures).[7] In recent years other companies have sought to separate the disclosure of the value of share based payments from other aspects of remuneration.[8] The Australian Institute of Company Directors recently released a position paper calling for reporting of remuneration outcomes rather than estimated remuneration values.[9]

It is notable that such calls for greater emphasis on reporting outcomes rather than accounting estimates of fair value have arisen during a time when the value of equity incentives granted to senior executives in prior years has declined substantially and/or performance hurdles have not been met. This concern over outcomes based reporting was largely absent prior to the decline in equity markets and economic conditions in 2008 and 2009 despite the fact there was considerable evidence prior to this period that the accounting valuations of equity incentives included in executive pay ***systematically under-reported*** actual remuneration received by senior executives by on average between 70 and 75 percent.[10]

[5] Goodman Group, *Annual Report 2009*, p. 42.
[6] Rio Tinto Group, *2009 Annual Report*, p. 116.
[7] See, for example, Iluka Resources Limited, *2009 Annual Report*, p. 7.
[8] See, for example, Suncorp-Metway Limited, *2008/09 Annual Report*, pp. 22-23.
[9] Australian Institute of Company Directors, *Position Paper No. 15: Remuneration Reports*, June 2010.
[10] See ISS Australia, *CEO Pay - It's even higher than you think: Valuation of executive options in Australia*, September 2006.

This continued into 2008: To take the example of Suncorp – former CEO John Mulcahy had 247,920 shares granted to him January 2003 vest on 5 January 2008. The fair value of the original grant of shares disclosed by the company was $2.138 million "assuming all performance criteria are met".[11] The realised value of the 80 percent of the grant that vested, using the closing share price on the first trading day after the vesting date (which fell on a Saturday), was $4.029 million, or nearly twice the disclosed fair value for the entire grant.[12] In contrast and as an example of over-reporting of remuneration, on his departure from the group early in 2009 he forfeited 227,261 ZEPOs with a previously disclosed fair value of $5.656 million. It is clear that readers of remuneration reports should be aware of what the disclosed value of equity incentives in remuneration tables means and be aware that the actual value of equity incentives vested to executives will invariably be much higher or much lower than the disclosed fair value.

2.1.3.2 Cash pay

In 2009, the average cash pay of an S&P/ASX 100 CEO declined 10.2 percent to its lowest level since 2005. As with bonuses however the median cash pay for an S&P/ASX 100 CEO was largely unchanged from 2008, declining 1.7 percent. This was again partly due to the "Allan Moss" effect, with Moss' very high cash pay in 2008 not being included in the 2009 sample, dragging down the 2009 average. It is worth noting that median cash pay in 2008 and 2009 has remained largely unchanged from the boom year of 2007 (and was in fact higher in 2008 than in 2007).

The highest paid CEO among the S&P/ASX 100 in 2009 on a cash basis was Westfield's Frank Lowy. The lowest paid was Fortescue's Andrew Forrest. As shown in Figure 2.3 below, 44 (65 percent) 2009 sample CEOs received cash pay between $1 million and $4 million, down from 49 (70 percent) in 2008. Of the 2009 sample, 19 (28 percent) received cash pay of more than $4 million compared to 18 (26 percent) in 2008.

The number of CEOs receiving relatively high levels of cash pay compared to other S&P/ASX 100 CEOs also declined in 2009 compared to 2008: In 2009, only one CEO received cash pay of greater than $9 million while in 2008 three CEOs did (Lowy, Moss and Wal King). In 2009, Leighton's CEO saw his cash pay decline from $11.057 million in 2008 to $8.718 million with his annual bonus falling from $7.598 million to $5 million as Leighton's net profit declined 28 percent.

	2005	2006	2007	2008	2009
Average	$2,832,132	$3,472,491	$3,779,271	$3,734,134[13]	$3,352,099
Median	$2,134,534	$2,492,718	$2,862,491	$2,903,752	$2,853,198
Minimum	$581,750	$415,862	$321,331	$198,648	$239,295
Maximum	$14,653,688	$16,504,181	$26,286,806	$27,894,726	$14,931,956
Change in Average	+93,316 *-$256,679*	+$640,359	+306,780	-$25,152	-$382,035

Table 2.5: Total remuneration excluding long term incentive: 2005 – 2009 comparison (figures in italics include News Corporation)

[11] Suncorp-Metway Limited, *Annual Report 2006*, p. 45.
[12] Suncorp-Metway Limited, *Annual Report 2007/08*, p. 17. The performance period ended on 5 January 2008. The closing share price on 7 January 2008 was $16.25.
[13] See above, n. 3. The 2008 report stated this figure as $3,754,119.

	2001	2002	2003	2004
Average	$2,018,190	$2,381,356	$2,141,128 *$2,444,368*	$2,787,708 *$3,146,703*
Median	$1,422,662	$1,447,111	$1,740,537 *$1,773,180*	$2,408,309 *$2,408,670*
Minimum	$166,457	$50,575	$387,472	$410,437
Maximum	$14,858,824	$16,294,620	$13,393,275 *$25,793,845*	$14,692,011 *$29,712,312*
Change in Average	*N/A*	+$363,166	+$63,012	+$646,580 *+$702,335*

Table 2.6: Total remuneration excluding long term incentive: 2001 – 2004 comparison (figures in italics include News Corporation)

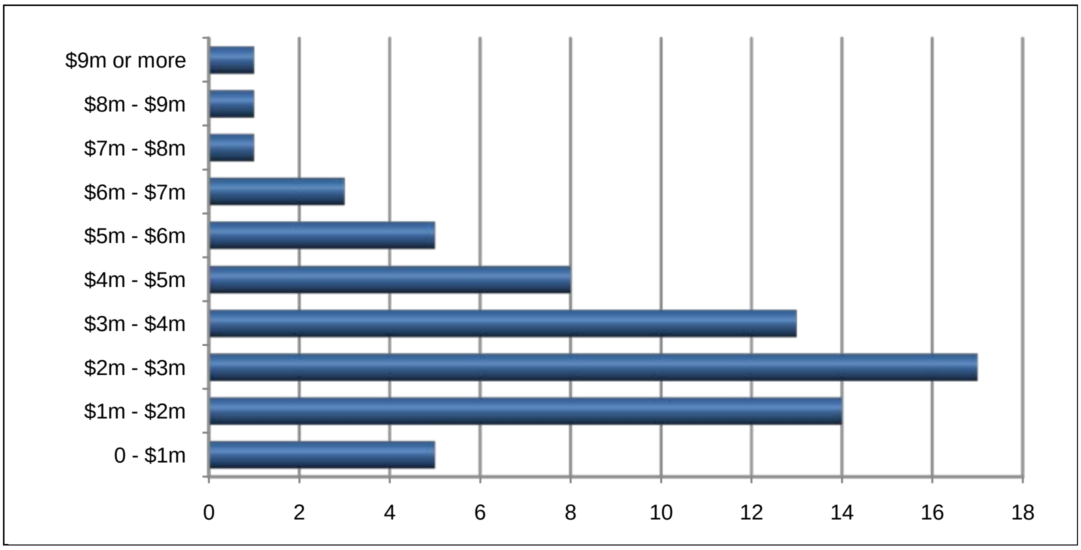

Figure 2.3: Distribution of total remuneration excluding long term incentive payments

2.1.4 Total remuneration including long-term incentive

This section examines the total remuneration package for S&P/ASX 100 CEOs, including the value of equity incentives disclosed by the sample entities in their annual reports. In assessing total remuneration levels including the equity incentive values readers should also take into account the discussion on disclosure and valuation of equity incentives above.

The feature of the 2009 longitudinal study – sharp declines in average performance related pay driven by the absence of a handful of very highly paid executives and effectively no change in median performance pay levels – is also reflected in total remuneration. In 2009, the average total disclosed remuneration of S&P/ASX 100 CEOs declined 5.6 percent to $4.877 million with a substantial proportion of this decline driven by the negative total remuneration value recorded for Goodman Group's CEO as discussed in section 3.1.3.1 above. If Greg Goodman's pay is excluded average total remuneration for 2009 was $4.964 million, a decline of 3.6 percent.

Median total remuneration for the 68 CEOs in the 2009 sample was down 0.2 percent from 2008 to $4.04 million. Since the peak in 2007 median S&P/ASX 100 CEO total pay has declined 3.1 percent. It remains 23.4 percent above median CEO total pay in 2006; the 2009 average is also 7 percent higher than the 2006 average. Over the three years to 30 June 2009 the S&P/ASX 100 Index declined 21.4 percent.

The highest paid CEO on a total remuneration basis was Westfield's Frank Lowy with $14.932 million and the lowest paid was Goodman Group's Greg Goodman. Excluding Goodman the lowest paid CEO on a total pay basis was Perpetual's David Deverall whose total remuneration of $195,925 was also reduced by a reversal of previously accrued equity incentive values on the basis performance hurdles were unlikely to be met (his 'cash pay' was $1.334 million). Excluding Goodman and Deverall the lowest paid CEO on a total basis was Fortescue's Andrew Forrest with $239,295.

The CEOs other than Lowy and Forrest who did not participate in equity incentive programs in 2009 were Primary Health Care's Ed Bateman and Nufarm's Doug Rathbone. These four individuals all have a substantial equity investment in the firms they lead.

	2005	2006	2007	2008	2009
Average	$3,766,224	$4,557,051	$5,532,515	$5,150,984	$4,877,176
Median	$3,092,576	$3,274,675	$4,168,554	$4,049,293	$4,039,748
Minimum	$659,002	$415,862	$404,062	$198,648	-$961,853
Maximum	$18,553,566	$21,210,349	$33,489,818	$24,755,444	$14,931,956
Change in Average	+$201,738 *-$146,899*	+$790,827	+$975,464	-$381,531	-$273,808

Table 2.7: Total remuneration including long-term incentive 2005-2009 comparison (figures in italics include News Corporation; 2001 and 2002 figures include CEOs not in office for a full year).

	2001	2002	2003	2004
Average	$2,644,393	$3,228,695	$2,858,343 *$3,163,769*	$3,564,486 *$3,913,123*
Median	$2,120,411	$2,098,601	$2,309,384 *$2,325,692*	$3,074,837 *$3,138,235*
Minimum	$166,457	$50,575	$387,472	$410,437
Maximum	$14,858,823	$16,294,620	$13,393,275 *$26,681,537*	$14,692,011 *$29,712,31*
Change in Average	*N/A*	+$584,302	-$64,926	+$706,143 *+$749,354*

Table 2.8: Total remuneration including long-term incentive 2001-2004 comparison (figures in italics include News Corporation; 2001 and 2002 figures include CEOs not in office for a full year).

In 2009, 30 of the 68 sample CEOs had total remuneration of more than $5 million while in 2008, 28 of the 70 had disclosed pay of more than $5 million (although exactly half of both the 2009 and 2008 samples had total disclosed pay of more than $4 million). In 2009, only three CEOs recorded total disclosed pay of greater than $12 million (Lowy, BHP's Marius Kloppers and Leighton's Wal King) while in 2008 there were six (Macquarie's Allan Moss, Lowy, Wal King, Telstra's Sol Trujillo, ANZ's Mike Smith and Qantas' Geoff Dixon). In 2009, 10 sample CEOs recorded total disclosed pay of less than $2 million (including Deverall and Goodman as noted above) while in 2008 eight had total disclosed pay of less than $2 million.

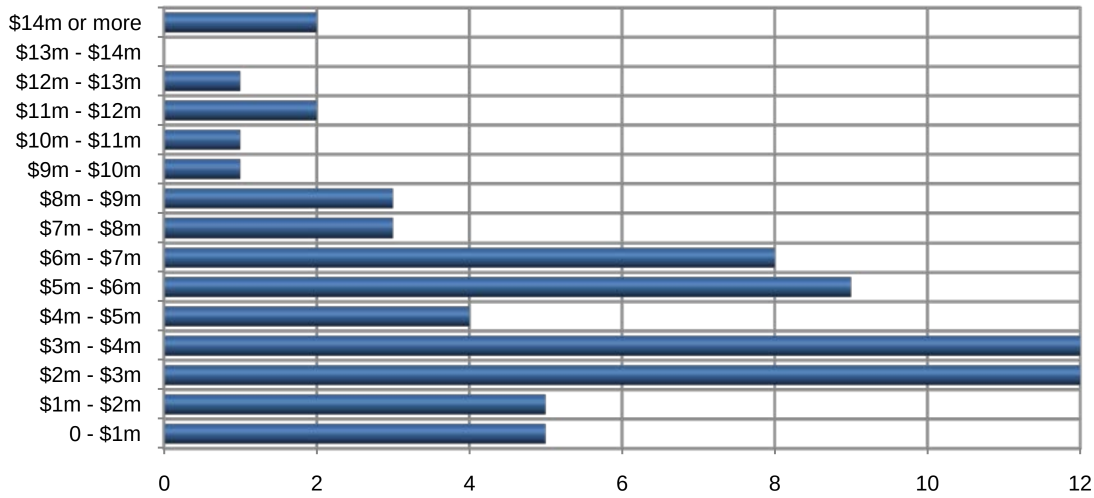

Figure 2.5: Distribution of total disclosed remuneration in 2009

CEO Remuneration by Industry – 2009 (2008 in italics)					
	Consumer Discretionary	**Consumer Staples**	**Energy**	**Financials ex-Property[14]**	**Health Care**
Average	$3,481,900 *($3,283,716)*	$6,086,041 *($4,341,114)*	$4,785,115 *($3,966,559)*	$5,231,031 *($7,056,888)*	$3,731,492 *($4,760,790)*
Median	$3,166,834 *($3,219,264)*	$7,951,775 *($4,176,061)*	$5,166,764 *($4,244,731)*	$3,858,000 *($5,220,926)*	$2,416,569 *($5,714,792)*
Min	$1,042,807 *($1,162,067)*	$1,803,091 *($1,757,217)*	$1,223,365 *($1,432,298)*	$195,925 *($2,719,376)*	$400,000 *($1,818,452)*
Max	$6,945,731 *($6,871,523)*	$8,327,767 *($7,808,919)*	$8,343,339 *($6,243,199)*	$10,935,603 *($24,755,444)*	$7,764,312 *($6,749,127)*
# CEOs	8 *(7)*	5 *(8)*	9 *(8)*	11 *(14)*	5 *(3)*
	Industrials	**Materials**	**Utilities[15]**	**Information Technology**	**Property**
Average	$5,430,948 *($6,200,179)*	$5,290,624 *($3,884,724)*	$3,569,469	$2,495,469 *($3,115,165)*	$4,983,796 *($5,587,816)*
Median	$5,005,788 *($4,478,982)*	$4,909,782 *($4,172,912)*	-	-	$2,982,540 *($3,000,000)*
Min	$2,665,000 *($2,192,898)*	*$198,468*	-	-	-$961,853 *($1,519,000)*
Max	$12,557,691 *($16,494,758)*	*$6,662,336*	-	-	$14,931,956 *($16,204,760)*
# CEOs	8 *(9)*	16 *(12)*	1 *(0)*	1 *(1)*	4 *(7)*

Table 2.9: CEO total disclosed remuneration by sector – 2009 and 2008

[14] In the 2008 and prior longitudinal studies the financial category was disclosed inclusive of financials and property entities; in the 2009 longitudinal these two sectors have been separated and the 2008 numbers calculated for comparative purposes.
[15] In 2009 there was one utilities entity in the sample and none in 2008. In 2008 there was one telecommunications entity in the sample, Telstra, which was absent in 2009. Former Telstra CEO Sol Trujillo's total disclosed pay in 2008 was $13.395 million.

2.2 The incumbency effect

This year's study again includes a comparison of changes in incumbent CEO remuneration: Those CEOs included in the sample in both 2008 and 2009. This comparison illustrates the impact of incumbency on CEO remuneration. The ACSI CEO pay study, which includes only companies in the S&P/ASX 100 as of a particular date, has dealt with a continually changing sample as CEOs retire, and as companies enter and leave the Top 100 due to acquisition, administration or increases or decreases in market capitalisation and liquidity.

The number of incumbents in 2009 at 48 was up slightly over the 2008 incumbent sample of 46. The impact of the financial crisis on the S&P/ASX 100 and on CEO tenure is apparent from the fact that the last pre-crisis incumbency comparison, in the 2007 study, had 56 CEOs in the sample.

As in the 2008 and 2007 studies, the incumbent CEOs had higher average and median base pay, bonuses (excluding those who did not receive a bonus), 'cash pay' (excluding equity incentive values) and total disclosed pay than the S&P/ASX 100 sample. Incumbent CEOs were also far more likely to receive a bonus in 2009 than the general S&P/ASX 100 CEO sample: Seven of the 48 incumbent CEOs received no bonus (14.6 percent) compared with five of the 20 non-incumbent CEOs (25 percent).

Average and median total disclosed pay increased in 2009 among the incumbent sample while it fell across the S&P/ASX 100. The average bonus declined less among the incumbent CEOs than across the whole sample (a 2 percent decline against a 10.2 percent decline) although the median bonus among the incumbent CEOs was almost unchanged while that across the S&P/ASX 100 CEO sample rose, by 3.3 percent. Median base pay also increased faster among the CEOs in the broader sample (by 3.3 percent compared to 3.1 percent for the incumbents) although the average base pay for an incumbent CEO increased faster, at 4.9 percent, than the 3.7 percent increase across the whole sample.

Of the incumbents, 33 of the 48 saw base pay increase, one saw it unchanged and 14 saw it decline (these declines were usually the result of changes in leave and pension accruals rather than actual declines in salary). Only 17 of the 48 however enjoyed an increase in their bonus relative to 2008, with another two receiving the same bonus in 2008 and 2009 and 29 seeing their bonus decline. In 2008 and 2007 a majority of incumbent CEOs saw their bonuses increase over the prior year.

	2008		2009	
	Average	Median	Average	Median
Fixed Rem.	$2,050,890	$1,802,342	$2,150,941	$1,857,821
STI	$1,630,903	$1,216,134	$1,597,890	$1,215,021
Total excl LTI	$3,613,839	$3,167,991	$3,515,805	$2,973,596
Total Rem.	$5,080,439	$4,531,655	$5,166,898	$4,683,719

Table 2.10: Incumbent CEO remuneration 2008 to 2009

2.3 Termination payments in 2009

This section is a new addition for the ACSI longitudinal study although it builds on data collected as part of the 2008 study. It assesses overall payments made on departure to CEOs of S&P/ASX 100 companies during the 2009 financial year relative to payments in 2008. No distinction is made between CEOs described as retiring or resigning given the lack of clarity provided by listed entities on the reasons for CEO departures. Termination payments for the purposes of the sample include statutory entitlements (which are usually based on fixed pay), payments in lieu of notice, contractual entitlements on termination, any discretionary payments, bonuses paid for part-year worked and the value of any 'unearned' equity incentives allowed to vest on departure (shares released from deferred bonus arrangements are excluded). The value of such incentives is determined based on the date of departure and/or when the entitlement to the incentive on departure was disclosed.

	2008	2009
Aggregate	$83,028,043[16]	$34,563,870
Number of payments	13	13
Average	$6,386,773	$2,658,759
Median	$3,504,000	$2,202,408
Minimum	$793,333	$168,000
Maximum	$18,309,786[17]	$6,386,465

Table 2.11: CEO termination payments in the S&P/ASX 100 2008 and 2009

In 2009 the size of termination payments fell reflecting in the substantial decline in both the average and median termination payment to a departing CEO. In 2009 only two CEOs – Telstra's Sol Trujillo, who received the largest payment, and Qantas' Geoff Dixon – received payments in excess of $5 million on departure while in 2008 a total of five CEOs received termination payments in excess of $5 million, with four of these being in excess of $10 million.

In 2009, six of the 13 departing CEOs received aggregate termination payments well in excess of their disclosed fixed pay for the 2008 financial year, meaning their termination entitlements would have potentially required shareholder approval had the revised Corporations Act approval requirements been in force earlier than the end of 2009.

[16] Figures disclosed in currencies other than AUD were converted into AUD using the exchange rate on the disclosed date of departure.
[17] This payment, to former Santos CEO John Ellice-Flint, includes $14.592 million which was the value of options that vested on his departure calculated based on the difference between the exercise price and closing price on the date his termination arrangements were announced to the ASX on 14 May 2008. It is not known if these options have been exercised. The cash termination payments were $3.718 million.

2.4 Remuneration components in detail

This section allows analysis of the relative significance of the components of pay that make up S&P/ASX 100 CEO remuneration: Base salary, annual bonuses, options and shares, and other components of pay such as non-cash benefits.

This year's study includes for comparison purposes only data from 2006, 2007 and 2008. Data for the period 2001 to 2005 is available from last year's longitudinal study; the exclusion of these years from the table on page 20 was simply in the interests of conserving space and making the table intelligible. Rules on pay disclosure over the period 2006 to 2009 have been relatively stable for Australian entities unlike the period 2001 to 2005 when changes in disclosure requirements made it difficult to compare components of pay between years difficult, especially share based payments. Table 2.12 provides a breakdown of the key components of CEO pay in the Top 100 companies in the CEO pay sample in 2006, 2007, 2008 and 2009.

Some points to note about Table 3.11 are:

- Base salary was the largest single component of CEO pay in the 2009 sample, at 36.34 percent as cash bonuses declined and base salary rose. The last time base salary was the single largest component of sample CEO pay was in 2005 when it was 35.11 percent. Cash bonuses, at 25.73 percent of total sample CEO pay, were at the lowest proportion since 2002 when they accounted for 23.2 percent of total sample pay. One reason for the substantial decline in cash bonuses from recent years (in 2008 cash bonuses accounted for 33.57 percent of total pay and were the largest single component of pay in the 2006, 2007 and 2008 samples) was the exclusion of Macquarie from the 2009 sample due to the change of CEO. Also contributing was the increase in the number of sample entities paying no bonus in 2009 (from five in 2008 to 12 in 2009).
- The total value of all remuneration received by the sample CEOs decreased 8 percent from 2008 to $331.6 million after falling in 2008 by 5.5 percent. The sample size decreased 3 percent in 2009, from 70 to 68.
- In 2009, zero exercise price options (ZEPOs) – known as performance rights or deferred shares – accounted for 20.95 percent of all sample CEO pay up sharply from 14.16 percent in 2008. This reflects an acceleration of the trend since 2003 away from options to ZEPOs. This was unlikely to be the result of proposed changes to the taxation of equity incentives announced in mid-2009 that were perceived to make options less attractive from a tax perspective as most of the equity grants made in the 2009 financial year for the sample companies were made well before these proposals were announced. It should also be noted that the initial shift from options to ZEPOs occurred following the last bear market in the first part of the 2000s and the shift to ZEPOs in 2009 occurred as share prices fell around the world potentially making options as a form of remuneration less attractive.

	2006 Total Amount	2007 Total Amount	2008 Total Amount	2009 Total Amount	2006 (% of total pay)	2007 (% of total pay)	2008((% of total pay)	2009 (% of total pay)
Base salary	$107,171,107	$106,931,799	$116,662,917	$120,511,874	31.78%	28.10%	32.36%	36.34%
Bonus component (Cash)	$112,931,873	$128,406,811	$121,058,867	$85,319,805	33.49%	33.64%	33.57%	25.73%
Bonus component (Shares)	$4,574,463	$4,467,916	$5,755,245	$1,235,787	1.36%	1.17%	1.60%	0.37%
Non-cash/Other benefit	$10,449,323	$7,284,369	$7,414,509	$5,420,182	3.10%	1.91%	2.06%	1.63%
Superannuation	$11,002,596	$9,916,559	$7,714,940	$7,682,713	3.26%	2.60%	2.14%	2.32%
Allowances	$4,208,403	$2,359,975	$4,181,856	$1,999,191	1.25%	0.62%	1.16%	0.6%
Motor Vehicle	$51,714	-	-	-	0.02%	-	-	-
Retirement Benefits	$6,574,830	$1,402,246	$340,275	$1,729,986	1.95%	0.37%	0.09%	0.52%
Cash long-term incentive payment	$12,109,694	$28,230,998	$1,776,732	$11,612,851	3.59%	7.40%	0.49%	3.5%
Options	$22,601,271	$35,241,777	$39,879,723	$24,906,242	6.07%	9.23%	11.06%	7.51%
Performance Rights	$27,958,299	$33,432,333	$42,180,455	$60,317,169	8.29%	8.76%	11.70%	18.19%
Deferred Shares	$12,346,469	$22,422,093	$8,886,528	$9,166,258	3.66%	5.87%	2.46%	2.76%
Loan-Funded Share Scheme	$5,241,739	$1,645,627	$4,709,869	$1,740,751	1.55%	0.43%	1.31%	0.52%
Free Shares	-	$1,000	$6,985	$5,125	-	0%	0%	0%
Total	$337,221,781	$381,743,502	$360,568,901	$331,647,935	100%	100%	100%	100%

Table 2.12: Components of total remuneration 2006 – 2009 (see prior longitudinal studies for 2001 to 2005 data).

3. Pay for Performance Case Studies

This section discusses 10 'pay-for-performance' case studies. Unlike prior years when the case studies have concentrated on the 10 highest paid CEOs in the sample, this year the 10 case studies compare the pay of five highest paid CEOs in the sample with the performance of their companies with that of the five lowest paid CEOs in the sample. The rankings of highest and lowest paid were selected using the data discussed above on the basis of total pay including the disclosed value of long term incentives granted.

Having identified the sample, pay and corporate performance data were collected for the past five years (financial years 2005, 2006, 2007, 2008 and 2009) or for the length of the CEOs tenure if they were not in office for the whole of this period. In the case of Westfield and Goodman Group major restructures mean there is not five years of comparable information and so the earliest full financial year post-restructure is used.

	Top 5 CEOs in study	2009 Total Remuneration
1	Frank Lowy (WDC)	$14,931,956
2	Marius Kloppers (BHP)	$14,147,081
3	Wal King (LEI)	$12,557,691
4	Tom Albanese (RIO)	$11,581,038
5	Rod Pearse (BLD)	$11,511,500 ($4,865,380)[18]
Average		**$12,945,853**

Table 3.1: Top 5 paid CEOs 2009

	Bottom 5 CEOs in study	2009 Total Remuneration
1	Greg Goodman (GMG)	-$961,853
2	David Deverall (PPT)	$195,925
3	Andrew Forrest (FMG)	$239,295
4	Ed Bateman (PRY)	$400,000
5	Rob Atkinson (ERA)	$843,000
Average		***$143,273***

Table 3.2: Lowest paid CEOs 2009

The top 10 CEOs in the 2009 sample aside from the five above were (highest to lowest): ANZ's Mike Smith (fifth in the 2008 sample), CBA's Ralph Norris (also seventh in the 2008 sample), Woodside's Don Voelte (new to the top 10 in 2009), Woolworth's Mike Luscombe (new to the top 10 in 2009) and Wesfarmers' Richard Goyder (also new to the top 10 in 2009). Of the top five, Lowy was third highest paid in the 2008 sample and Wal King was second highest paid. The six CEOs in the 2008 top 10 but missing in 2009 were Allan Moss, who retired from Macquarie in May 2008; Telstra's Sol Trujillo who departed the company in 2009, Qantas' Geoff Dixon who departed Qantas in 2009, Challenger's Mike Tilley who left shortly after the end of the 2008 financial year, NAB's John Stewart who also retired after the end of the 2008 financial year and Coca-Cola Amatil's Terry Davis who saw his total disclosed pay increase from $7.809 million in 2008 to $7.952 million in 2009. In 2009, the cut-off point for entry to the top 10 was $8.126 million. The top 10 accounted for a lower share of overall Top 100 CEO pay in 2009 relative to 2008 largely due to the departure of Macquarie's Allan Moss from the sample with the top 10 accounting for 33.1 percent of total 2009 top 100 CEO pay, down from 35.8 percent in 2008.

[18] The figure in brackets is Pearse's total remuneration for 2009 excluding the value of 'cessation payments' recognised in the 2009 year due to his impending retirement. See page 27 below for a more detailed explanation.

3.1 Measures of performance used

Over the following pages tables are shown comparing CEO remuneration with four measures of corporate performance:

- Share Price Performance (**SPP**).
- Return on Assets (**ROA**).
- Return on Equity (**ROE**).
- Total Securityholder Return (**TSR**).

SPP captures the performance of the company's share price over several years. The share prices used are taken at the company's reporting date. For example, if a company has a 30 June year-end, the share prices shown are as at 30 June 2009, etc.

ROA is an accounting measure of profitability. It represents the ratio of a company's net profit after tax to the average of its total assets on hand at the beginning and end of the performance period.

ROE is another accounting measure of profitability. It is determined by dividing net profit after tax by total shareholder equity averaged over the beginning and the end of the reporting period. In conjunction with ROA it can indicate whether a company is improving ROE by taking on debt to acquire assets.

TSR is the total financial return a securityholder would obtain from owning the entity's securities for a period of time. TSR for one year takes into account the increase (or decrease) in the security price between the start and end of the year in question, and also the value of dividends paid during the year (for the purposes of calculating TSR dividends are not reinvested). TSR is expressed as a percentage. The tables include one-year TSR and three-year TSR. One-year TSR is the return for the company's financial year ending in 2009 (e.g. the year to 30 June 2009 for 30 June year-end companies). The three-year TSR figure is the return across the three years to the company's financial year ending in 2009. This three-year figure is the total return a shareholder would have enjoyed for the whole three-year period, rather than an average compound annual return across the three years. It does not take account of capital raisings the impact of which should also be apparent in security price performance over time.

3.2 How to compare pay and performance?

In analysing the tables below, it is reasonable to allow for the impact of lagging effects: For example, a bonus paid in a particular year may reflect performance against strategic goals – such as integrating an acquisition or restructuring businesses – which will start to flow through into financial performance in future years. Bonuses also typically incorporate an element of annual earnings performance so the most appropriate performance measures with which to compare annual bonuses are those based on profitability, ROA and ROE. Over time strong ROA and ROE should however be reflected in returns to investors through improved share prices and dividends.

As noted above, the LTI value included in these case studies is that reported by companies in annual reports; the actual value derived by a CEO from their LTI may bear little relationship to the disclosed value, which is based on accounting standard requirements (for example, Goodman Group's CEO is not required to repay the group despite the negative value recorded for his equity incentives in 2009; the negative value is a reversal of amounts previously accrued for equity incentives in past years). Where the LTI does not vest, the actual value received by a CEO from the LTI will be lower than the reported value and in many cases the actual value of the shares received from an LTI on vesting is substantially higher than that disclosed in remuneration reports.

The purpose of these case studies is to provide illustrative examples of the relationship between corporate performance and CEO remuneration in large Australian companies. These are case studies and are not comprehensive statistical studies. As a general observation, the pay of the two of the top three CEOs – Frank Lowy and Wal King – continues to be dominated by cash rather than equity and these men have consistently been among the highest paid CEOs since the ACSI longitudinal study of CEO pay began.

4. Five Highest Paid CEO Case Studies

4.1 CEO 1: Frank Lowy's Remuneration & Performance Analysis

	2005	2006	2007	2008	2009
Security price	$18.16	$20.99	$21.00	$12.95	$12.55
ROA[19]	4.75%	4.07%	3.97%	3.88%	4.09%
ROE	10.24%	8.72%	7.76%	7.9%	8.6%
Base pay	$8,789,826	$8,888,197	$8,885,278	$9,204,760	$8,981,956
Bonus	$4,500,000	$5,500,000	$7,000,000	$7,000,000	$5,950,000
LTI	$0	$0	$0	$0	$0
Total Pay	$13,289,826	$14,388,197	$15,885,278	$16,204,760	$14,931,956

One year TSR	**4.65%**
One year movement in total pay	-7.9%
Three year TSR	**-25.35%**
Movement in total pay 2006 - 2009	3.78%

In 2009, the total annual remuneration of Westfield CEO Frank Lowy declined for the first time since the 2004 restructure that created the present Westfield Group. This was driven largely by a decline in total bonus for 2009. The tables nonetheless illustrate the consistency in remuneration outcomes for Westfield's CEO over the past five years despite the security price volatility over this period (Westfield explicitly states in its remuneration report that it does not consider linking executive pay directly to security price performance to be an effective way of remunerating executives given the number of factors that impact on security price performance).

ROA and ROE were at their highest levels since 2006 although assessing Westfield's performance using accounting metrics is complicated by the impact of unrealised revaluations on its balance sheet (and income statement). Property revaluations in 2009 and 2008 saw Westfield report statutory losses (although in 2006 and 2005 upwards revaluations substantially increased statutory profit).

[19] Earnings for ROA and ROE for Westfield have been calculated using Westfield's "distributable income" which, among other things, excludes the impact of unrealised property revaluations. Westfield has used the same measure as its primary earnings measure for reporting to investors since the introduction of A-IFRS in 2005.

4.2 CEO 2: Marius Kloppers' Remuneration & Performance Analysis

	2008	2009
Share price	$43.70	$34.72
ROA	22.42%	7.59%
ROE	45.26%	15.01%
Base pay	N/A	$3,868,883
Bonus	N/A	$2,357,114
LTI	N/A	$7,921,084
Total Pay	N/A	$14,147,081

One year TSR	**-20.55%**
One year movement in total pay	N/A

On 1 October 2007, BHP Billiton appointed Marius Kloppers as CEO, replacing Chip Goodyear. The 12 months ending 30 June 2009 were Kloppers' first full year in office and saw BHP's TSR over one year fall nearly 21 percent, largely due to the decline in commodity prices, and hence BHP's share price and earnings, between 30 June 2008 and 30 June 2009 (TSR is calculated using the share price of BHP Billiton Limited, the Australian company within the dual listed company structure). The 2009 profit was also affected by substantial writedowns chiefly due to the suspension of operations at the Ravensthorpe nickel facility in Western Australia.

The 2009 financial year was also the first testing year for equity incentives granted under BHP's current long term incentive program that assesses performance over five years relative to an index of peer companies' TSR. BHP Billiton outperformed this index by 5.5 percent per annum over the first five year vesting period to 30 June 2009 and so Kloppers' grant of 225,000 ZEPOs over BHP Billiton plc shares made in 2004 (prior to him becoming CEO) vested in full.

Total pay for Kloppers in 2009 has been converted from USD into AUD using the average exchange rate for the 2009 year; if the exchange rate as at 30 June 2009 was used, when the AUD was higher relative to the USD, Kloppers would still have been the second highest paid CEO in the S&P/ASX 100.

4.3 CEO 3: Wal King's Remuneration & Performance Analysis

	2005	2006	2007	2008	2009
Share price	$11.50	$17.35	$41.25	$50.85	$23.50
ROA	10.21%	8.11%	10.53%	10.85%	6.22%
ROE	23.65%	27.66%	36.69%	42.88%	23.01%
Base pay	$4,399,000	$4,203,000	$3,121,982	$3,457,908	$3,717,945
Bonus	$3,016,000	$2,741,000	$6,000,000	$7,598,600	$5,000,000
LTI	$5,402,000	$4,219,000	$4,758,555	$5,438,250	$3,839,746
Total Pay	$12,817,000	$11,163,000	$13,880,537	$16,494,758	$12,557,691

One year TSR	**-50.93%**
One year movement in total pay	-23.87%
Three year TSR	**55.97%**
Movement in total pay 2006 - 2009	12.49%

The total pay of Leighton CEO Wal King declined for the first time in 2009 since 2006 (when then chairperson Geoff Ashton negotiated a cap on King's total pay under a new contract that was renegotiated by the current chairperson after Ashton's departure in May 2007). As in prior years, the overwhelming majority of King's total pay is in cash although his total pay declined sharply in 2009 (although not as much as the decline in TSR). Over the three years to 30 June 2009, King's total pay has increased at a much lower rate than the overall increase in TSR.

In the 2009 year, Leighton raised equity and increased its total assets, meaning a 27.6 percent decrease in profit resulted in a much greater decline in ROA and ROE. In 2009, ROA and ROE were at their lowest levels since 2004. In 2004, King's total pay was $8.26 million, 34.2 percent lower than in 2009.

4.4 CEO 4: Tom Albanese's Remuneration & Performance Analysis

	2007	2008	2009
Security price	$133.95	$38.00	$74.89
ROA	10.79%	3.86%	5.21%
ROE	34.01%	16.19%	15.11%
Base pay	N/A	$4,124,862	$3,597,694
Bonus	N/A	$202,293	$1,213,325
LTI	N/A	-$1,801,485	$6,770,019
Total Pay	N/A	$2,525,670	$11,581,038

One year TSR	**99.75%**
One year movement in total pay	358.53%

In May 2007, Tom Albanese became CEO of Rio Tinto Group (TSR information is for shares in Rio Tinto Limited, the Australian company within the dual listed company structure). In comparing his remuneration between 2008 and 2009, his first two full years as CEO, it is important to understand the impact of accounting rules on the value of his equity incentives which led to the negative equity value in 2008, which was reversed in 2009 leading to the substantial incline in his total pay between the two years. The decline in base pay between 2008 and 2009 was largely driven by movements in pension accruals.

The impact of the debt funded Alcan acquisition in 2007, undertaken under Albanese's leadership, on Rio's performance over the 2008 and 2009 years is clearly apparent from the above table. Since the acquisition, ROA has been below 6 percent and ROE has halved despite the acquisition being funded through debt (a rights issue in mid 2009 saw Rio's debt burden substantially reduced). The recovery in Rio's share price in 2009 was driven by the reduction in its debt and a recovery in commodity prices.

4.5 CEO 5: Rod Pearse's Remuneration & Performance Analysis

	2005	2006	2007	2008	2009
Share price	$6.48	$8.14	$8.77	$5.65	$4.07
ROA	7.84%	6.85%	5.23%	4.15%	2.49%
ROE	15.61%	14.05%	10.39%	8.24%	5.02%
Base pay	$2,024,835	$2,263,209	$2,510,492	$2,736,959	$3,018,300
Bonus	$976,000	$1,337,175	$576,000	$2,269,953	$0
LTI	$626,653	$822,702	$1,109,827	$1,655,424	$8,493,200[20]
Total Pay	$3,627,488	$4,423,086	$4,196,319	$6,662,336	$11,511,500

One year TSR	**-23.63%**
One year movement in total pay	**72.78% (-26.97%)**
Three year TSR	**-38.64%**
Movement in total pay 2006 - 2009	**160.26% (10.0%)**

Note: Figures in brackets refer to pay movements excluding the 'cessation payments' recognised in the 2009 year by Boral due to Pearse's impending retirement.

Boral's former CEO Rod Pearse is included among the top five paid CEOs for 2009 only because of various payments he was entitled to receive on retirement under his contract and the requirement for Boral to accelerate recognition of share based payments yet to vest due to his retirement being announced. Even so, the experience of Pearse and shareholders over the five years to 30 June 2009 was quite different: His cash pay (bonus plus base) in 2005 was just over $3 million and by 2009 his base pay of $3.018 million was higher than his combined base and bonus in 2005. Over the same period, ROA and ROE fell and TSR was negative although this was in part due to difficult conditions in Australia and the US – especially after 2007 in the US – in the building materials industry.

[20] The LTI value for Pearse in 2009 includes $4,043,200 in end of service payments Boral recognised in the 2009 year after Pearse decided to retire at the expiry of his contract in 2009. It also includes accelerated recognition of share based payments expenses of $2,602,920 due to Pearse's intended retirement. If these cessation expenses are excluded then Pearse's total pay for 2009 was $4,865,380.

5. Five Lowest Paid CEO Case Studies

5.1 CEO 1: Greg Goodman's Remuneration & Performance Analysis

	2006	2007	2008	2009
Share price	$6.00	$6.72	$3.09	$0.37
ROA[21]	6.68%	6.5%	5.54%	0.5%
ROE	11.46%	12.17%	11.71%	1.17%
Base pay	$611,278	$1,740,818	$1,511,438	$1,464,163
Bonus	$2,100,000[22]	$2,433,333	$3,033,333	$0
LTI	$917,302	$2,014,525	$3,038,212	-$2,426,016
Total Pay	$3,628,580	$6,188,676	$7,582,983	-$961,853

One year TSR	**-82.15%**
One year movement in total pay	N/A
Three year TSR	**-80.16%**
Movement in total pay 2005 - 2008	N/A

At first glance there appears to have been strong correlation between CEO pay and group performance at Goodman Group over the past four years with the substantial decline in TSR in 2008 and 2009 reflected in negative total remuneration for CEO Greg Goodman in 2009. This negative figure is however due to the reversal of various security based expenses in 2009 on the basis they were unlikely to vest as discussed elsewhere in this report. It does not reflect a requirement for Goodman to repay funds to the group.

Including the deferred cash component of annual bonuses (paid in cash with vesting on continued service, see note 22 below), the CEO of Goodman in the 2006, 2007 and 2008 years received cash bonuses of $10.2 million and saw his base salary more than double. This three year period was marked by marginal increases in ROE and declining ROA, indicating an increase in debt levels across the Group that contributed to the abrupt decline in fortunes in the 2009 year (interest bearing liabilities as disclosed in the consolidated balance sheet increased from $2.172 billion as at 30 June 2006 to $4.229 billion as at 30 June 2008).

[21] In calculating ROA and ROE an adjusted earnings measure has been used which excludes the impact of unrealised property revaluations and which is consistent over the period. This figure has been calculated on a consistent basis by ISS for the 2006, 2007, 2008 and 2009 years as Goodman in its adjusted profit figure has excluded certain realised expenses including impairments and in 2009, $90.7 million in restructuring costs and various realised losses.

[22] Goodman Group in 2007 restated certain remuneration items for 2006 to include the impact of deferring portions of the CEOs bonus in cash, which are then paid in fortnightly instalments over three years. The 2006 remuneration figure is pay as disclosed in 2006 by Goodman (then known as Macquarie Goodman). The 2007 LTI figure includes $1.167 million in deferred bonuses relating to 2007 performance; the 2008 LTI figure includes $1.467 million.

5.2 CEO 2: David Deverall's Remuneration & Performance Analysis

	2005	2006	2007	2008	2009
Share price	$57.43	$73.15	$78.51	$42.77	$28.55
ROA	24.1%	15.74%	10.62%	5.7%	1.62%
ROE	34.88%	45.09%	54.2%	39.35%	12.49%
Base pay	$553,459	$554,656	$802,797	$1,004,635	$1,003,107
Bonus	$1,054,507	$1,102,200	$1,267,200	$535,329	$331,000
LTI	$675,270	$674,149	$747,051	$1,606,519	-$1,138,182
Total Pay	$2,283,236	$2,331,005	$2,817,048	$3,146,483	$195,925

One year TSR	**-29.02%**
One year movement in total pay	-93.77%
Three year TSR	**-47.38%**
Movement in total pay 2006 - 2009	-91.59%

As with the Goodman Group case study, an initial review of the link between CEO pay and performance at Perpetual over the five years to 30 June 2009 suggests a strong correlation. This strong correlation is however mostly due to the negative value of -$1.138 million recognised by the company for Deverall's unvested long term incentives in 2009 in response to the increasing likelihood performance hurdles would not be met due to the decline in Perpetual's profitability (see elsewhere in this report for a discussion of share based payment expense disclosures; the negative value does not reflect an amount owing by Deverall to the company but an accounting entry reversing previously incurred expenses relating to past equity grants yet to vest.

The launch of Perpetual's Exact Market Cash Fund (EMCF) in 2005 was largely responsible for the apparent decline in ROA as the fund was launched guaranteeing investors a cash index return meaning Perpetual had to account for the Fund's assets and associated liabilities on balance sheet. A better measure of profitability over the period is ROE which illustrates the strong correlation between Perpetual's profitability and Australian equity market performance given the company's domestic asset management business was the major contributor to earnings over this period. ROE peaked in 2007 as the equity market peaked and has since declined, with unrealised EMCF losses reducing profit in 2008 and 2008 along with restructuring expenses.

Bonuses paid to Deverall in 2008 and 2009 fell sharply from the levels of 2005, 2006 and 2007 although this was partly offset by a near doubling in his base salary over the five year period. His base salary in 2009 was however still the eighth lowest of the 68 CEOs in the 2009 sample. On a cash pay basis his remuneration fell 19.5 percent between 2006 and 2009 as TSR fell 47.38 percent.

5.3 CEO 3: Andrew Forrest's Remuneration & Performance Analysis

	2005	2006	2007	2008	2009
Share price[23]	$0.29	$0.95	$3.38	$11.90	$3.79
ROA	N/A	N/A	N/A	N/A	13.48%
ROE	N/A	N/A	N/A	N/A	129.02%
Base pay	$110,000	$110,000	$111,100	$198,648	$223,877
Bonus	$0	$0	$110,000	$0	$15,418
LTI	$0	$0	$0	$0	$0
Total Pay	$110,000	$110,000	$221,100	$198,648	$239,295

One year TSR	**-68.15%**
One year movement in total pay	12.7%
Three year TSR	**12.13%**
Movement in total pay 2006 - 2009	117.54%

Accounting measures of performance have been of limited use in assessing Fortescue's performance for much of the past five years. This has been due to the company being in development stage until late in the 2008 financial year when it made its first shipment of iron ore and also because of the impact of its use of subordinated loan notes in financing. Under A-IFRS, the fair value movement in these notes is recorded in the income statement and as the interest payable is defined in terms of revenue derived from specific tenements, the values move with expected production and iron ore prices. An increase in the fair value of these notes as at 30 June 2008 led to a substantial statutory loss for Fortescue in 2008 and negative equity; this was largely reversed in 2009 and was a substantial contributor to the company reporting its first statutory profit (although operating cash flow for 2009 was positive. The importance of debt financing to the company's growth is also apparent in the huge ROE (on a statutory basis) in 2009 relative to ROA although the ROE figure is inflated by the negative equity recorded for 2008. Fortescue's share price performance over the past three years reflects the volatility in commodity prices before and after the financial crisis.

Fortescue's CEO was the lowest paid CEO in the sample in 2008 and was also the lowest paid in 2009 if negative revaluations on share based payments are excluded when calculating pay. His pay has doubled over the past five years but off a very low base relative to the pay received by other S&P/ASX 100 CEOs. The value of Forrest's equity stake in Fortescue over the period 30 June 2005 to 30 June 2009 increased from $301 million to $3.7 billion based on the share price as at those dates.

[23] The share prices for 2005, 2006 and 2007 have been adjusted to reflect the 10 for one share split of Fortescue shares in December 2007.

5.4 CEO 4: Ed Bateman's Remuneration & Performance Analysis

	2005	2006	2007	2008	2009
Share price	$9.10	$11.90	$12.70	$5.20	$5.25
ROA	7.45%	9.33%	9.89%	0.25%	2.53%
ROE	10.77%	12.82%	14.2%	0.63%	5.61%
Base pay	$400,000	$400,000	$376,793	$400,000	$400,000
Bonus	$0	$0	$0	$0	$0
LTI	$0	$0	$0	$0	$0
Total Pay	$400,000	$400,000	$376,793	$400,000	$400,000

One year TSR	**3.27%**
One year movement in total pay	0%
Three year TSR	**-50.08%**
Movement in total pay 2006 - 2009	0%

Primary Health Care entered the S&P/ASX 100 following its acquisition of Symbion Health in 2008. The impact of the acquisition, which was initially funded primarily with debt that has been progressively reduced through capital raisings and divestments of parts of Symbion, is clearly apparent on the performance of the company with ROA and ROE falling sharply in 2008 as profits fell due to acquisition costs. Also apparent is the very modest level of pay received by Primary's CEO, Ed Bateman, who throughout the period had a significant equity stake in the company. This equity stake provided direct alignment with shareholders with Bateman acquiring another $135 million in Primary shares in the post-acquisition entitlement offer. As at 30 June 2009 his equity stake in the group was worth $246 million.

5.5 CEO 5: Rob Atkinson's Remuneration & Performance Analysis

	2008	2009
Share price	$19.00	$23.89
ROA	20.58%	21.55%
ROE	32.50%	31.59%
Base pay	N/A	$519,000
Bonus	N/A	$55,000
LTI	N/A	$269,000
Total Pay	N/A	$843,000

One year TSR	**27.53%**
One year movement in total pay	N/A
Three year TSR	**N/A**
Movement in total pay 2005 - 2008	N/A

Despite being a member of the S&P/ASX 100, ERA is a subsidiary of Rio Tinto, with Rio owning 68.4 percent of the company. The remuneration of ERA CEO since September 2008, Rob Atkinson, is clearly lower than it would otherwise be if ERA were not a listed subsidiary of a much larger group. Performance in his first full year as CEO was strong with ROE declining due to a substantial proportion of the 2009 profit being retained.

In assessing Atkinson's LTI it should also be noted that he participates in the Rio Tinto LTI schemes and so his equity incentives vest based on the performance of Rio Tinto rather than ERA (which in 2009 contributed less than 5 percent of Rio's net profit). As noted above, while Atkinson's remuneration is not necessarily aligned with that of ERA's non-Rio Tinto shareholders his overall pay is much lower as a result of Rio Tinto's controlling interest.

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