CEO Pay in the Top 100 Companies: 2010

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About the Authors

The Australian Council of Superannuation Investors

The Australian Council of Superannuation Investors (ACSI) assists its member superannuation funds to manage environmental, social and corporate governance (ESG) investment risk.

ACSI's services include:

- ✓ Advice and proxy voting services.
- ✓ Engagement with ASX200 companies on material ESG issues.
- ✓ Research to support our policy positions.
- ✓ Public Advocacy for improved governance practices and standards including promotion of effective legislative and regulatory regimes.
- ✓ Assistance to members for implementation of the UN Principles for Responsible Investment.

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Foreword

ACSI was established in 2001 to represent ‘profit for member’ superannuation funds on the management of environmental, social and corporate governance (ESG) investment risk. Today ACSI’s members manage over $300 billion in retirement savings.

We are proud to announce that this study marks both ACSI’s 10th anniversary as an organisation, and the 10th year ACSI has published comprehensive research on CEO pay in Australia's largest 100 listed companies. The companies in the S&P/ASX 100 represent a substantial proportion of the assets held by Australian superannuation funds. The CEOs of these companies – and the incentives created by their remuneration structures - can therefore have a significant influence on the retirement savings of superannuation fund members.

While much has changed over the past decade, the key principles used by ACSI to assess executive remuneration have not. ACSI, and our member superannuation funds, remain focussed on executive remuneration structures which create alignment between executives and the long term interests of shareholders. This view is based on the belief that executive pay should reflect company performance, especially long term sustainable performance.

This study shows a significant increase in CEO pay at large companies over the past decade. The decade to 2010 saw median CEO fixed pay in the Top 100 ASX Australian companies increase 131 percent and the median bonus increase 190 percent, far outstripping the 31 percent increase in the S&P/ASX 100 over the 10 years to 30 June 2010. ACSI continues to recognise that the correlation between cash bonuses and returns to shareholders is imperfect, however, payment of substantial bonuses to senior executives should also produce strong returns to shareholders – if this is not the case bonuses have been paid either on mistaken assessments, or performance has been assessed using criteria unrelated to company performance.

In the wake of the Global Financial Crisis, there is an indication that regulatory and shareholder efforts to reduce the potential for executives to receive cash-based windfall gains, based on unsustainable performance, has been successful in many large Australian companies. In recent years we have witnessed an increasing number of companies deferring significant proportions of annual bonuses into equity vesting over time, particularly in the financial sector.

Through the provision of evidence based research, ACSI seeks to contribute to achieving improvements in CEO remuneration structures across the Australian market. ACSI will utilise this study, and a decade of detailed research on CEO pay, to underpin voting decisions and engagement with Government, companies, investors, and opinion leaders. ACSI will continue to promote a framework under which executive pay reflects company performance, especially long term sustainable performance.

Yours sincerely

Ann Byrne
Chief Executive Officer

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1. Executive Summary

This is the 10th year ACSI has reviewed CEO pay in Australia's largest 100 listed companies. The companies in the S&P/ASX 100 represent more than 90 percent of the market capitalization of the S&P/ASX 300, and therefore represent a substantial proportion of the assets held by Australian superannuation funds on behalf of members. The CEOs of these top 100 companies – and the incentives created by their remuneration structures - can therefore have a significant influence on the retirement savings of super fund members. These CEOs are also among Australia’s highest paid corporate leaders and the alignment of their remuneration with returns to shareholders is also of critical interest to ACSI and shareholders generally, especially given the prominent part played in national debates by many of these CEOs.

As in the past, the study covers only CEOs of S&P/ASX 100 companies as at 30 June 2010, in office for a full financial year ending in 2010. The 2010 sample includes 80 CEOs, up substantially from recent years: There were 68 in the 2009 sample, 70 in 2008 and it is not since the 2005 sample that the sample has included 80 CEOs.

In 2010, total CEO median and average pay increased, with the median rising 8.6 percent to $4.388 million, the highest level recorded in the 10 years of the ACSI study. Increases in total disclosed pay came despite declines in average and median bonuses and fixed pay, with the average bonus among CEOs who received a bonus falling to $1.574 million, the lowest level since 2005. The decline in average and median fixed pay, largely driven by the entry of 23 new CEOs to the 2010 sample, saw average top 100 CEO pay fall to $1.929 million from $2.017 million. In line with the decline in fixed pay and bonuses, average and median cash pay – CEO pay excluding the value of equity incentives – also fell, with average cash pay falling from $3.405 million in 2009 to $3.346 million in 2010, the lowest level since 2005. The impact of new CEOs on the sample is illustrated by the increase in fixed pay and bonuses for the 57 CEOs who were also included in the 2009 sample, with the incumbents enjoying increases in average and median fixed pay, bonuses and cash pay: Median fixed pay by 3.1 percent, median bonuses by 12.1 percent and median cash pay by 10.2 percent.

As observed in the 2009 study, S&P/ASX 100 CEO pay has not subsided to the levels observed before 2005, despite declining in recent years: Average top 100 CEO bonuses have fallen 30.1 percent from the peak of $2.251 million in 2007 but remain 15.4 percent above 2005 levels, while median bonuses across the S&P/ASX 100 CEO sample are still 12.2 percent above 2005 levels. The persistence of bonuses across the sample continued in 2010, with 90 percent of the sample CEOs receiving a bonus up from 82 percent in 2009.

In 2010, Commonwealth Bank’s Ralph Norris had the highest pay across the S&P/ASX 100, at $16.158 million, displacing the top ranked CEO in the 2009 sample, Westfield’s Frank Lowy who in 2010 received $15.965 million. The barrier for entry to the top 10 highest paid sample CEOs in 2010 was unchanged from 2009 at $8.3 million. For the first time the ACSI study in 2010 includes data on realised pay – the equity actually vested to CEOs as opposed to the amortised estimated value required under accounting standards – for the 10 CEOs with the highest statutory pay and the five with the lowest. The average statutory pay across the top 10 was $11.56 million and the average realised pay was $10.795 million. The highest paid of the top 10 on a realised basis was Leighton Holdings’ former CEO, Wal King, at $19.839 million.

Aggregate termination payments across the S&P/ASX 100 fell relative to 2009 in 2010 driven by the much smaller number of companies that changed CEO during the 2010 financial year. Only five termination payments were disclosed in 2010, down from 13 in 2009. The largest termination payment in 2010 was also much lower than in 2009, at $1.682 million received by Brambles’ Mike Ihlein, down from the $6.386 million paid to former Telstra CEO Sol Trujillo in 2009.

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

This section reviews the pay of CEOs of S&P/ASX 100 companies, over the financial years 2001 to 2010. Data was obtained only from annual reports.

80 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 individuals were removed from the sample so as not to distort the figures.

- Some of the entities in the S&P/ASX 100 index as at 30 June 2010 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 and have been excluded from the sample. As in past years, James Hardie (now domiciled in Ireland), and Oil Search (domiciled in PNG) are included in the sample, as is APA Group (an Australian trust) because they disclose remuneration for their CEOs on the same basis as required under Australian regulations.

- Another three companies – AXA Asia-Pacific, Arrow Energy and Lihir Gold – were members of the S&P/ASX 100 as at 30 June 2010 but were acquired prior to completing their 2010 financial reports and were excluded from the sample. All were part of the 2009 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, or in some cases, the AUD figures provided as supplementary disclosure by the company. In the case of Seek, which joined the S&P/ASX 100 during the 2010 year and has joint CEOs, the combined remuneration of the joint CEOs was included in the sample.

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 while Crown’s CEO for the purposes of this study is Rowen Craigie and not executive chairperson James Packer.

2.1 Breakdown of components and 2001-2010 change analysis

This section analyses the following components of CEO pay:

- Fixed pay — the non-variable element of the CEOs remuneration.
- Short-term incentive — the annual bonus paid to the CEO in the financial year and the bonus accrued.
- Total remuneration excluding long-term incentive.
- Total remuneration including long-term incentive.

2.1.1 Fixed remuneration

Fixed remuneration comprises those components of CEO pay which do not vary with performance.

These often include:

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

In 2010 average CEO fixed pay fell for the first time in the history of the ACSI study, declining 4.4 percent to $1.929 million. The median rose slightly, from $1.808 million to $1.823 million, an increase of just 0.9 percent. Despite the decline in average fixed pay for top 100 company CEOs, it remained at levels above the last pre-financial crisis year of 2007. The decline in the average was driven largely by the inclusion of 23 new CEOs into the sample in 2010. Among the 23 new entrants, average fixed pay was $1.492 million and the median was $1.505 million while incumbent CEOs in the sample saw average fixed pay increase marginally by 2.1 percent (to $2.106 million; see section 2.2 below on the impact of incumbency on CEO pay in the S&P/ASX 100).

The nature of the ACSI CEO pay study means the sample for any given year will always include ‘new entrants’ as either companies join the S&P/ASX 100 or new CEOs are appointed; what was unusual about 2010 was the high number of new entrants at 23 and the relatively low pay of these new entrants relative to the incumbents. In 2009 there were 20 new entrants in a sample of 68 but their average fixed pay was higher than the 2010 new entrants, at $1.592 million.

For the first time in the history of the study, average adult weekly ordinary full time earnings (AWOTE) and inflation increased faster than both average and median CEO fixed pay between 2009 and 2010: the Consumer Price Index rose 3.1 percent in the 12 months to 30 June 2010 and AWOTE rose 5.2 percent over the 12 months to the end of May 2010. Over the period from 2001 to 2010 however average and median fixed CEO pay has far outstripped both inflation and wages growth, with the average increasing by 91.2 percent and the median by 133.2 percent compared to a 28.6 percent increase in inflation and a 52.8 percent increase in wages.[1]

The 2010 sample included the impact of pay freezes implemented after the 2009 financial year in response to the global financial crisis for companies with a 30 June year end. It also included two companies where CEOs voluntarily received pay cuts for part of the 2010 financial year: Commonwealth Bank, where Ralph Norris volunteered to receive a 10 percent pay cut for the first six months of the year and WorleyParsons, where CEO John Grill volunteered a 15 percent fixed pay cut for the last 10 months of the 2010 financial year.

Fixed pay across S&P/ASX 100 CEOs remains varied although the two extremes in the sample have remained unchanged for three years: Fortescue Metals’ (now former) CEO, Andrew Forrest was again the lowest paid CEO in the S&P/ASX 100 (his fixed pay was $119,000 in 2010, down substantially from 2009) and Westfield’s recently retired executive chairperson Frank Lowy again had the highest fixed pay in the sample at $8.965 million; this was the sixth consecutive year Lowy had received the highest fixed pay in the S&P/ASX 100.

[1] Both figures are from the Australian Bureau of Statistics; the wages figure is from 31 May 2001 to 31 May 2010; the CPI figure is the eight capital cities CPI index and is from 30 June 2001 to 30 June 2010. Please see www.abs.gov.au for additional information, catalogue numbers 6302.0 and 6401.0 respectively.

The level of his fixed pay is so large relative to peers that his retirement in May 2011 to make way for his sons as joint CEOs of Westfield is likely to lead to a decline in average CEO fixed pay in the 2011 study: If the sample continues to include all members of the 2010 sample other than Lowy and their fixed pay does not change, the 2011 average would fall 4.6 percent from 2010. In 2010, Lowy's fixed pay was more than $5 million higher than the next highest, Rio Tinto's Tom Albanese.

High levels of fixed pay remain a feature of S&P/ASX 100 CEOs. In the 2010 sample there were nine CEOs including Frank Lowy receiving $3 million or more in fixed pay, down from 10 in 2009 (and down by more as a proportion, falling from 15 percent of the 2009 sample to 11 percent in 2010). The eight other individuals receiving guaranteed fixed pay of $3 million or more in 2010 were Rio's Tom Albanese (inclusive of the accrual of his defined benefit pension), Coca-Cola Amatil's Terry Davis, Leighton Holding's Wal King, BHP Billiton's Marius Kloppers, CBA's Norris, Wesfarmers' Richard Goyder, ANZ's Mike Smith and Crown's Rowen Craigie.

As shown in figure 2.1, 41 of the 80 Top 100 CEOs in the 2010 sample received fixed pay between $1 million and $2 million per annum (similar to 2009, when 53 percent of the sample fell into this range). In 2010 10 CEOs in the sample received fixed pay of less than $1 million per annum, or 12.5 percent of the sample, similar to the 8.9 percent of the 2009 sample who fell into this range. Of the 2010 sample 29 received fixed pay of more than $2 million (36 percent, compared with 37 percent in 2009).

Year	Average	Median	Minimum	Maximum	Change in Average
2010	$1,929,062	$1,823,168	$119,057	$8,964,902	-$87,861
2009[2]	$2,016,923	$1,807,561	$223,877	$8.981,956	+$69,573
2008	$1,947,350	$1,745,856	$198,648	$9,204,760	+$114,122
2007	$1,833,228	$1,533,948	$321,331	$8,885,278	+$37,570
2006	$1,789,826	$1,579,292	$394,769	$8,888,197	+$262,427
2005	$1,533,231	$1,373,437	$494,531	$8,789,826	+$116,354
2004	$1,416,877 *$1,554,410*	$1,353,000 $1,376,798	$410,437	$4,084,000 *$11,731,875*	+$55,108 *+$130,125*
2003	$1,361,769 *$1,424,285*	$1,136,537 *$1,137,769*	$345,056	$6,716,040 *$13,486,153*	+$377,724 *+$396,997*
2002	$984,045 *$1,027,288*	$903,838 *$914,330*	$50,575	$7,938,000 *$7,938,000*	+$95,638 *+$19,276*
2001	$888,407 *$1,008,012*	$780,975 *$781,788*	$52,055	$2,650,565 *$8,543,137*	N/A

Table 2.1: Fixed remuneration 2001– 2010; figures in italics inclusive of News Corporation prior to its shift to the US in 2005.

[2] The 2009 fixed pay figure has been restated from an average of $2.02 million to adjust for the superannuation contribution on the annual bonus of Coca-Cola Amatil CEO, Terry Davis. This is because in its 2010 remuneration report CCL clarified that Davis is entitled to a 20 percent superannuation 'loading' on his bonus and vested long term incentive; in 2009 ACSI determined this based on discussions with CCL. The adjustment for the 20 percent loading led to Davis' 2009 fixed pay falling from $4.186 million to $3.722 million and his bonus increasing from $2.322 million to $2.786 million. The average and median bonus figure for 2009 has also been restated. The superannuation disclosure continues to include an element relating to Davis' vested equity incentive as CCL does not break into components the superannuation figure it discloses in its remuneration table (which in 2010 was $1.265 million and in 2009 $1.476 million). Fixed pay has also been restated to reflect Computershare's disclosure of its CEO, Stuart Crosby's pay in USD rather than AUD. His fixed pay as a result rose from $752,732 to $1,023,979.

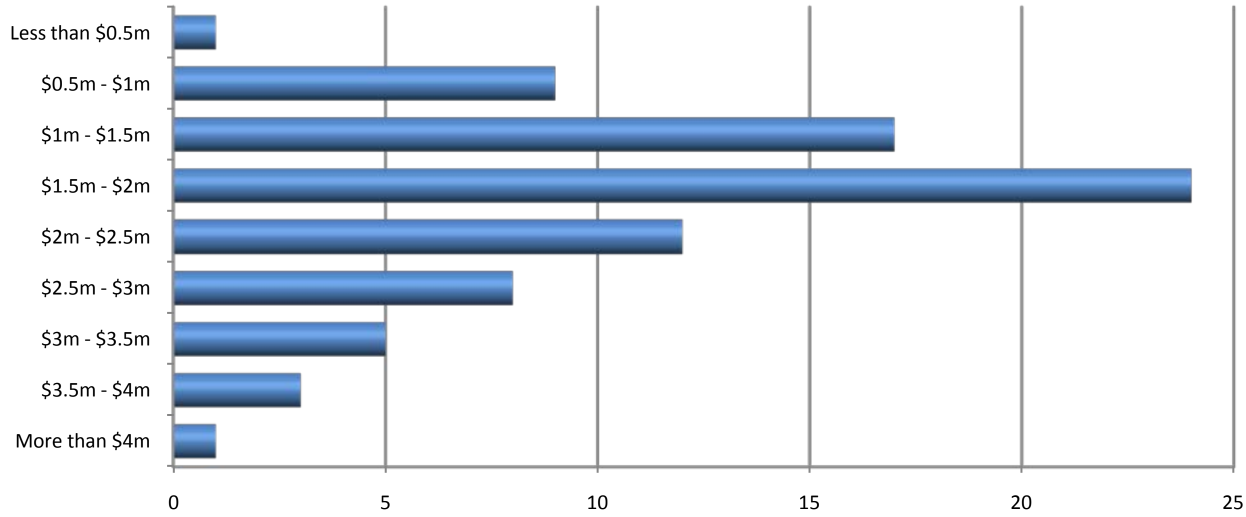

Figure 2.1: Distribution of fixed remuneration for Top 100 CEOs in 2010

2.1.2 Short-term incentive

The 2010 year was the third consecutive year that the average bonus received by S&P/ASX 100 CEOs fell, declining 2.5 percent from 2009 to $1.574 million (2009: $1.614 million).[3] The 2010 average bonus was 30.1 percent below the record of $2.251 million set in 2007 which included substantial cash bonuses to the CEOs of Macquarie and Babcock & Brown. Despite a third year of decline, the 2010 average bonus remained higher than the average bonus for any year prior to 2006 (if News Corporation is excluded from the pre-2005 sample). The median bonus in 2010 fell by more than the average, declining 7 percent to $1.122 million. The incumbency effect was also apparent in the payment of bonuses in 2010; see below for more details.

As in prior years this average excludes those CEOs who received no bonus. Annual bonuses, as observed in past studies, have become more frequent across the S&P/ASX 100 regardless of performance as the size of bonuses has increased (see table and figure 2.2 below). In 2010, if the eight CEOs in the sample who received no bonus are included, the 2010 average falls to $1.417 million. More entities paid bonuses than in 2009, when 12 of the 68 sample entities paid no bonuses to their CEO (17.6 percent in 2009; 10 percent in 2010).

Cash bonuses and the impact of deferral

The eight CEOs who received no bonus in 2010 included Qantas' CEO Alan Joyce. He accrued a $2.88 million bonus for 2010 but the Qantas board elected to award this as Qantas shares subject to sale restrictions for two years after grant. Under Australian remuneration disclosure requirements these vesting conditions meant no bonus was recorded in Joyce's 2010 remuneration and it will instead be amortised over the 2011, 2012 and 2013 financial years. In the wake of the Global Financial Crisis, and regulatory and shareholder efforts to reduce the potential for executives to receive windfall gains in cash based on unsustainable performance many large Australian companies, especially in the financial sector have begun deferring significant proportions of annual bonuses into equity vesting over time.

[3] The 2010 sample includes bonus data for Goodman Group CEO Greg Goodman that was disclosed in the 2011 financial year. In 2011, GMG ceased its past practice of disclosing bonuses on a cash basis and began disclosing, as most other top 100 companies do, on an accruals basis. As a result it restated its 2010 remuneration disclosures to include the $1.8 million bonus Goodman was paid in 2011 that related to the 2011 financial year. See Goodman Group, 2011 Financial Report, pp. 9-10.

The 2009 longitudinal study flagged the impact on disclosed bonus numbers in statutory remuneration disclosures from this move to greater deferral and the 2010 study has for the first time captured information on the total bonus accrued during 2010 for sample CEOs; this will be tracked over time in future studies. In 2010 the average bonus accrued for all 80 CEOs in the sample was $1,738,225 (the median was $1,275,000) and the average if the seven CEOs disclosed as accruing no 2010 bonus are excluded was $1,904,904 (median $1,511,985). There were 21 CEOs in the sample who were disclosed as having a deferred element of their annual bonus at risk either through exposure to future performance or forfeiture on departure.

Year	Average	Median	Minimum	Maximum	Change in Average
2010	$1,573,984	$1,122,000	$13,642	$10,298,586	-$39,732
2009[4]	$1,613,716	$1,206,662	$223,877	$8,238,246	-$390,160
2008[5]	$2,003,876	$1,167,645	$202,293	$27,223,798	-$247,477
2007[6]	$2,251,353	$1,334,200	$750,000	$25,615,987	+$572,691
2006	$1,678,662	$1,005,890	$100,000	$15,833,577	+$314,728
2005	$1,363,934	$1,000,000	$75,000	$13,892,889	+$70,841 *-$307,674*
2004	$1,293,093 *$1,671,608*	$900,000 *$911,803*	$126,000	$13,400,000 *$17,980,437*	+$190,490 *+$388,278*
2003	$1,102,603 *$1,283,330*	$725,000 *$735,129*	$88,000	$12,381,000	+$199,634 *+$345,983*
2002	$902,969 *$937,347*	$468,011 *$475,000*	$50,000	$10,944,000	+$133,844 *+$65,958*
2001	$769,125 *$871,389*	$377,936 *$386,805*	$73,000	$6,239,739	N/A

Table 2.2: Annual bonus 2001 – 2010 comparison; conditional on a bonus being paid; figures in italics include News Corporation.

Bonus and performance

As noted in prior longitudinal studies, the correlation between cash bonuses and returns to shareholders is imperfect. The recipient of the highest bonus in the 2010 and 2009 samples for example, Leighton's now former CEO Wal King, received total cash performance payments of $18.54 million in 2009 and 2010. As discussed in the pay for performance case study below, shortly after his departure Leighton announced losses on projects and investments entered into during his tenure of more than $1 billion and was forced to raise capital. The second largest cash bonus awarded in the 2010 sample was received by Westfield's Frank Lowy who over the past five years has only once failed to receive his maximum bonus, in the 2009 year when he received $5.95 million of a possible $7 million.

Cash bonuses should *not* exhibit perfect correlation with security prices and cash returns to investors over even a two to three year period but over time a company that pays substantial bonuses to senior executives should also produce strong returns to shareholders – if this is not the case bonuses have been paid either on mistaken assessments or have been assessed using criteria unrelated to company performance.

[4] The 2009, 2008 and 2007 bonus numbers have been restated to reclassify the cash 'deferred incentive' for Leighton CEO Wal King as part of the annual bonus rather than as part of the long term incentive. This is because the incentive, while deferred, is accrued based on a year's performance and payable on termination outside a range of limited circumstances. The change had the impact of increasing the average for 2009 from $1.546 million, for 2008 from $1.929 million and for 2007 from $2.178 million. The deferred incentive for King in 2009 was $3.238 million; in 2008 it was $4.837 million and in 2007 $4.458 million. The maximum bonus for 2009 was also restated as King's total 2009 bonus post-restatement was $8.238 million, above the $5.95 million received by Westfield's Frank Lowy. The 2009 figure has also been restated to reflect the lower fixed pay and higher bonus of CCL"s Davis and the conversion of Computershare CEO's Stuart Crosby's 2009 pay into AUD. Crosby's 2009 bonus increased as a result from $304,813 to $414,652. See note 2.

[5] Ibid.
[6] Ibid.

Of the eight CEOs who received no cash bonus in 2010, two did not participate in bonus schemes (Primary's Ed Bateman and the joint CEOs of Seek) and as noted above, the Qantas board decided to award its CEO's 2010 bonus entirely as shares. The other five CEOs who received no bonus did not receive a bonus due to poor company performance and these were the CEOs of Aristocrat, AWE, Foster's, Paladin Energy and WorleyParsons.

The lack of correlation between cash bonuses and shareholder returns is also apparent from the stability of bonus payments over the period 2004 to 2010, as shown in figure 2.2. Since 2004 more than 85 percent of sample CEOs have received a bonus in every year other than in 2009 when in the depth of the financial crisis, 82 percent of sample CEOs received a bonus. It appears that between 2003 and 2004 there was a shift to higher frequency bonus payments. The 2003 to 2004 period also coincides with increased scrutiny from Australian institutional investors of the terms of equity incentives granted to senior company executives; under the ASX Listing Rules and Corporations Act shareholders have no control over cash bonuses but some control over grants of equity incentives (although ACSI notes that since changes to ASX Listing Rule in 10.14, the requirement for shareholder approval of equity grants to directors has become largely voluntary as grants involving the on market purchase of company shares with shareholder funds are now exempt from shareholder approval). Cash bonuses have also become larger as they have become more frequent, increasing the annual bonus expense across the CEO sample: in 2002, a year where a quarter of the sample received no bonus, the median bonus among those who received a bonus was $475,000 and by 2010 this had increased to $1.122 million.

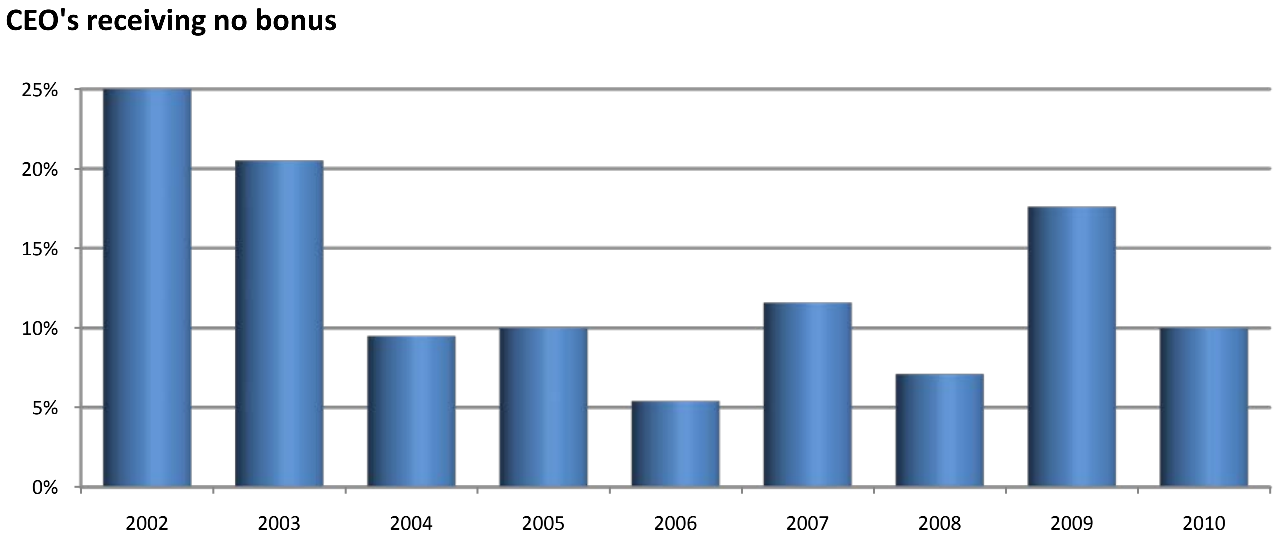

Figure 2.2: S&P/ASX 100 CEOs receiving no bonus 2002 - 2010

Figure 2.3 shows the distribution of bonuses across the sample in 2010. The proportion of sample CEOs receiving bonuses of less than $0.5 million fell between 2009 and 2010, from 29.4 percent to 21.3 percent while the proportion receiving bonuses of greater than $2 million also fell, from 25 percent in 2009 (17 of 68) to 17.5 percent in 2010 (14 of 80). In 2010, 41.2 percent of sample CEOs received bonuses of between $1 million and $2 million, up from 30.9 percent in 2009. In 2009 and 2010 four CEOs received bonuses of more than $3 million (5.9 percent of the 2009 sample and 5 percent of the 2010 sample). As in 2009, only Lowy and King received bonuses of greater than $5 million.

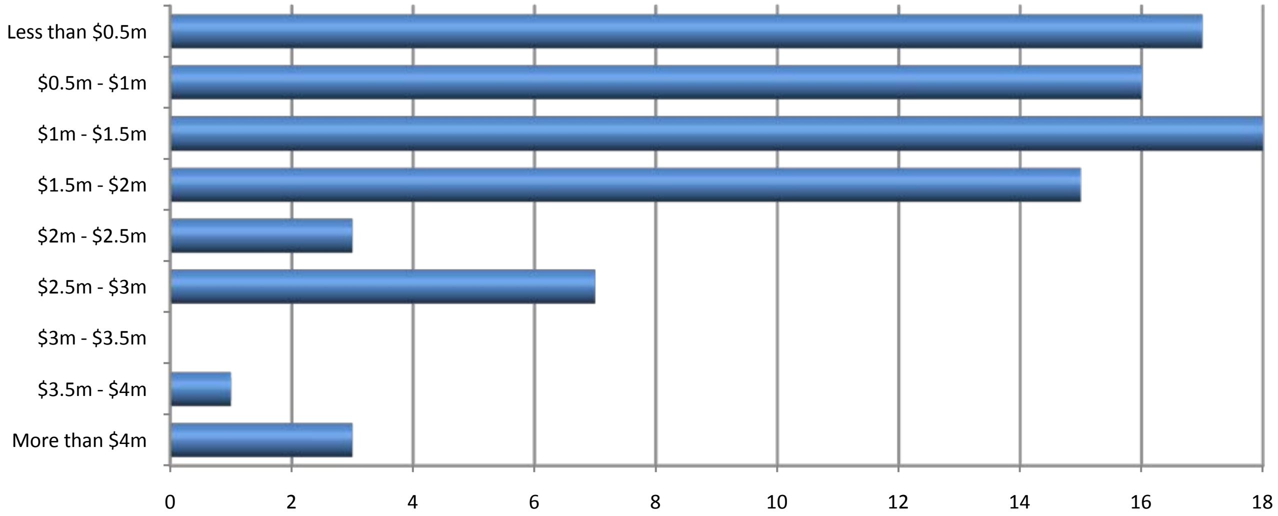

Figure 2.3: Distribution of short term incentive payments in 2010 inclusive of CEOs receiving no bonus

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 given the imperfect relationship between the statutory remuneration disclosures of the value of equity given to executives and actual remuneration received (see the 2009 ACSI CEO Pay study for a longer discussion of the difficulties involved in statutory share based payment disclosures). In addition, prior to 2003 many companies either chose not to value equity granted to executives in remuneration disclosures or accounted for the value of grants in various ways.

Year	Average	Median	Minimum	Maximum	Change in Average
2010	$3,345,647	$2,785,900	$132,699	$15,964,902	-$59,678
2009[7]	$3,405,325	$2,853,198	$239,295	$14,931,956	-$397,905
2008[8]	$3,803,230	$2,903,752	$198,648	$27,894,726	-$26,154
2007[9]	$3,829,384	$2,862,491	$321,331	$26,286,806	+$356,893
2006	$3,472,491	$2,492,718	$415,862	$16,504,181	+$640,359
2005	$2,832,132	$2,134,534	$581,750	$14,653,688	+$44,424 *-$314,571*
2004	$2,787,708 *$3,146,703*	$2,408,309 *$2,408,670*	$410,437	$14,692,011 *$29,712,312*	+$646,580 *+$702,335*
2003	$2,141,128 *$2,444,368*	$1,740,537 *$1,773,180*	$387,472	$13,393,275 *$25,793,845*	-$59,536 *+$63,012*
2002	$2,200,664 *$2,381,356*	$1,427,877 *$1,447,111*	$50,575	$11,922,336 *$16,294,620*	+$386,293 *+$363,166*
2001	$1,814,371 *$2,018,190*	$1,375,000 *$1,422,662*	$166,457	$7,823,072 *$14,858,824*	N/A

Table 2.3: Total remuneration excluding long term incentive: 2001 – 2010 comparison (figures in italics include News Corporation)

[7] The 2009, 2008 and 2007 cash numbers have been restated to reclassify the cash 'deferred incentive' for Leighton CEO Wal King as part of the annual bonus rather than as part of the long term incentive, as discussed above under footnote 4. The change had the impact of increasing the average for 2009 from $3.352 million, for 2008 from $3.734 million and for 2007 from $3.779 million. The 2009 number has also been restated to reflect the correction of Computershare CEO Stuart Crosby's pay from USD to AUD; see note 2 above.
[8] Ibid.
[9] Ibid.

Reflecting a third consecutive year of decline in annual bonuses, cash pay in 2010 also declined for the third consecutive year. The decline in the average of 1.8 percent however was much smaller than the 10.5 percent decline in 2009 reflecting the higher proportion of sample CEOs who received a bonus in 2010. Despite a 'peak to trough' decline of 12.6 percent, average cash pay remains higher than at any time prior to 2006. The decline in the average however has been driven by a decline in very large levels of cash pay received by CEOs of companies such as Macquarie and Babcock & Brown. The median has been much steadier over the period 2007 to 2010, declining 2.4 percent in 2010 and 4.1 percent from the 2008 peak to 2010. In 2010 the median was higher than any year prior to 2007. Overall cash pay levels indicate CEO pay in large ASX listed companies, while no longer rising, appear to have plateaued at levels reflecting the boom years immediately prior to the financial crisis. Fixed pay levels are unsurprisingly difficult to reduce but of more concern is the fact bonuses remain elevated at their immediate pre-crisis levels. This may in part be due to many companies basing bonus potential on fixed pay levels, so as fixed pay increases bonuses paid for the same level of performance also increase.

As in 2009, the highest cash pay for an S&P/ASX 100 CEO was received by Westfield's Frank Lowy and the lowest by Fortescue's Andrew Forrest. In 2010, as in 2009, only Lowy and Leighton's Wal King received cash pay of more than $10 million (following the reclassification of an element of King's remuneration to bonus rather than LTI; see footnote 4 above). The distribution of cash pay across the sample was similar to that in 2009, with 5 percent in 2010 receiving cash pay of less than $1 million (2009: 7.4 percent), 67.5 percent receiving cash pay between $1 million and $4 million (2009: 64.7 percent) and 27.5 percent receiving cash pay of more than $4 million (2009: 27.9 percent).

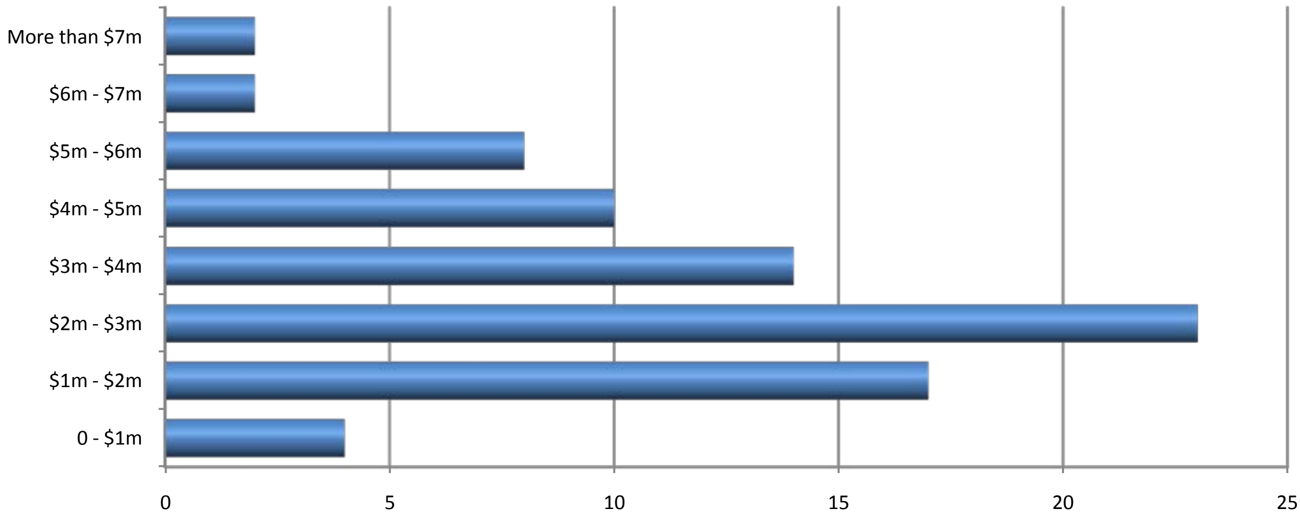

Figure 2.4: Distribution of total remuneration excluding long term incentive payments

2.1.4 Total remuneration including long-term incentive

This section examines the reported total remuneration for S&P/ASX 100 CEOs for their company's 2010 financial year. It includes the 'fair value' value of equity incentives disclosed in annual reports calculated in accordance with the requirements of International Financial Reporting Standard 2 (which covers share based payments). As noted in this and prior studies, these statutory total remuneration numbers should be interpreted with care given the value of equity incentives reported is an amortised estimate rather than the value received by the CEOs. Over the history of the longitudinal study the actual benefit received by the CEOs has been much larger and much lower than that reported to shareholders (and in 2010 many companies disclosed 'realised' remuneration for their senior executives in addition to statutory remuneration).

The 2010 study, in its analysis of the 10 CEOs disclosed as having the highest total remuneration, includes a realised remuneration figure for the first time, and also includes this figure for the five lowest paid CEOs included in the pay for performance case studies (see below).

Average and median total pay levels increased in 2010, the only remuneration category examined in the 2010 study where this occurred. The average total pay increased marginally by 1 percent to $4.98 million while median total disclosed pay increased 8.6 percent to $4.388 million. The increase in the average total disclosed pay reflected increases in the disclosed value of equity incentives – the 2010 study included three CEOs with negative equity valuations (Harvey Norman's Gerry Harvey, ASX's Robert Elstone and Perpetual's David Deverall) while the 2009 study included four (including Deverall); the aggregate negative value across the three 2010 sample members was however much lower, at $1.034 million rather than $5.313 million in 2009.[10]

Total CEO disclosed pay also reflects the substantial elevation in CEO pay levels prior to the global financial crisis observed elsewhere in the 2010 study. Average CEO total pay in 2010 was 9.9 percent lower than the 2007 peak but remains 9.3 percent higher than the 2006 average (itself 21 percent higher than the 2005 level). The steady increase in the median over time – in 2010 it was 34 percent higher than the 2006 median - also indicates a general increase in pay levels across the sample, partially offsetting the declining numbers of sample CEOs receiving very high levels of remuneration post-2008.

Year	Average	Median	Minimum	Maximum	Change in Average
2010	$4,982,196	$4,388,073	$132,699	$16,157,746	+$49,943
2009[11]	$4,932,253	$4,039,748	-$961,853	$14,931,956	-$218,731
2008	$5,150,984	$4,049,293	$198,648	$24,755,444	-$381,531
2007	$5,532,515	$4,168,554	$404,062	$33,489,818	+$975,464
2006	$4,557,051	$3,274,675	$415,862	$21,210,349	+$790,827
2005	$3,766,224	$3,092,576	$659,002	$18,553,566	+$201,738 *-$146,899*
2004	$3,564,486 *$3,913,123*	$3,074,837 *$3,138,235*	$410,437	$14,692,011 *$29,712,312*	+$706,143 *+$749,354*
2003	$2,858,343 *$3,163,769*	$2,309,384 *$2,325,692*	$387,472	$13,393,275 *$26,681,537*	-$200,665 *-$64,926*
2002	$3,059,008 *$3,228,695*	$2,081,110 *$2,098,601*	$50,575	$11,922,336 *$16,294,620*	+$608,495 *+$584,302*
2001	$2,450,513 *$2,644,393*	$1,843,987 *$2,120,411*	$166,457	$11,682,638 *$14,858,824*	N/A

Table 2.4: Total remuneration including long-term incentive 2001-2010 comparison (figures in italics include News Corporation).

[10] As noted in the 2009 study, under IFRS the annual value of share based payments can be negative for incentives subject to 'non-market' performance conditions. For these type of incentives a company is able to accrue or reverse the estimated value of a grant of equity over its vesting period based on an assessment of the probability of vesting.

[11] The 2009 average has been restated from $4.877 million as restricted shares with a disclosed value of $3.738 million held by Westpac CEO Gail Kelly were accidentally excluded in calculating total remuneration numbers. The 2009 figure has also been restated to correct the remuneration totals for Computershare CEO Stuart Crosby from USD to AUD. See note 2.

The highest paid CEO on a total remuneration basis in 2010 was Ralph Norris, at $16.158 million, supplanting Westfield's Frank Lowy, who topped the 2009 sample and was second in 2010 with $15.965 million. The lowest paid CEO was Andrew Forrest; the 2009 sample included a CEO with negative total remuneration, Greg Goodman (due to the reversal of the value of his equity incentives). In 2010, six CEOs were reported as having zero equity value - Lowy, Forrest, Nufarm's Doug Rathbone, Primary Health Care's Ed Bateman, MAp's Kerrie Mather and the CEO of West Australian Newspapers (since renamed Seven West Media), Chris Wharton. Of these six, four have substantial ownership positions and so do not participate in equity incentive programs with the exceptions being Mather and Wharton; Wharton was granted equity after the end of the 2011 financial year. As at 31 December 2010 Mather's holding in MAp was worth $10.63 million.

The distribution of total disclosed CEO pay across the sample in 2010 was similar to 2009: 13.8 percent had total pay of less than $2 million (2009: 14.7 percent), 42.5 percent had total pay of more than $5 million (2009: 44.1 percent) and 5 percent had total pay of more than $12 million (2009: 4.4 percent). The CEOs in 2010 who had total disclosed pay of more than $12 million were Norris, Lowy, Leighton's Wal King and BHP Billiton's Marius Kloppers (Lowy, King and Kloppers were the only three to top $12 million in 2009).

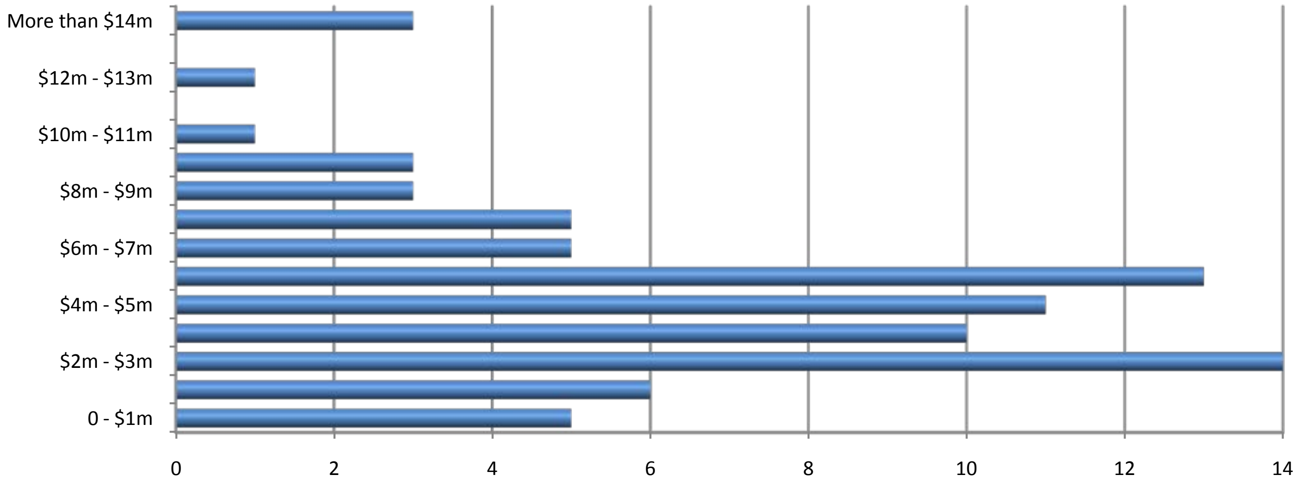

Figure 2.5: Distribution of total disclosed remuneration in 2010

CEO Remuneration by Sector – 2010 (2009 in italics)						
	Consumer Discretionary	**Consumer Staples**	**Energy**	**Financials**[12]	**Health Care**	**Telcos**
Average	$3,269,928 *($3,481,900)*	$5,379,495 *($6,086,041)*	$4,172,007 *($4,785,115)*	$6,562,789 *($5,489,763)*	$3,725,629 *(3,731,492)*	$3,192,601
Median	$2,954,609 *($3,166,834)*	$5,594,898 *($7,951,775)*	$4,915,801 *($5,166,764)*	$5,469,000 *($3,858,000)*	$3,934,576 *($2,416,569)*	-
Min	$738,072 *($1,042,807)*	$2,118,790 *($1,803,091)*	$867,000 *($1,223,365)*	$1,371,412 *($195,925)*	$950,000 *($400,000)*	-
Max	$7,170,252 *($6,945,731)*	$8,330,417 *($8,327,767)*	$8,474,653 *($8,343,339)*	$16,157,746 *($10,935,603)*	$6,083,365 *($7,764,312)*	-
# CEOs	9 *(8)*	6 *(5)*	9 *(9)*	13 *(11)*	4 *(5)*	1 *(0)*
CEO Remuneration by Sector – 2010 (2009 in italics)						
	Industrials	**Materials**	**Utilities**	**Information Technology**	**Property**	
Average	$5,060,113 *($5,430,948)*	$5,071,863 *($5,290,624)*	$3,887,803 *($3,569,469)*	$4,501,146 *($3,394,709)*	$5,965,998 *($4,983,796)*	
Median	$4,557,002 *($5,005,788)*	$4,425,665 *($4,909,782)*	$3,887,803	-	$4,735,466 *($2,982,540)*	
Min	$2,464,077 *($2,665,000)*	$132,699 *($239,295)*	$1,951,852	-	$2,445,706 *(-$961,853)*	
Max	$14,694,850 *($12,557,691)*	$12,849,046 *($14,147,081)*	$5,823,754	-	$15,964,902 *($14,931,956)*	
# CEOs	12 *(8)*	16 *(16)*	2 *(1)*	1 *(1)*	7 *(4)*	

Table 2.5: CEO total disclosed remuneration by sector – 2010 and 2009

[12] The 2009 average has been restated from $5.231 million; see note 11 above.

2.2 The incumbents

This is the fourth year the ACSI study has included analysis of 'incumbent CEOs' – those CEOs who were in the sample in both the current and prior year. The purpose of the incumbency study is to remove the impact of changes to the sample, either through companies joining or leaving the S&P/ASX 100 or CEOs joining and leaving companies and examine the remuneration of those CEOs in office at companies that were members of the top 100 for two consecutive years.

The 2010 incumbents sample is the largest since ACSI began reviewing the incumbency effect in 2007, with 57 members, as the turnover in CEO ranks (and the composition of the S&P/ASX 100) due to the turmoil of 2008 and 2009 eased. The 2010 incumbents again received higher average and median fixed pay, bonuses, cash pay and total pay than the sample as a whole. Incumbent median fixed pay was 4.1 percent higher than the general sample; median bonuses were 21.4 percent higher (excluding those who did not receive a bonus); median cash pay was 20.6 percent higher and median total disclosed pay among the incumbents was 13.4 percent higher than the general sample. As in past years, incumbents were also more likely to receive a bonus than non-incumbents with 93 percent of incumbents receiving a cash bonus compared with 82.6 percent of newcomers to the sample.

The 2010 incumbent sample also, as in past years, enjoyed a faster rate of increase in their remuneration levels than the sample as a whole. In 2010, incumbent average and median fixed pay, bonuses, cash pay and total disclosed pay rose faster than across the general sample. A majority of the incumbents – 37 of 57 – saw their bonuses increase in 2010 relative to 2009, with another receiving an unchanged bonus. Just under half the incumbents in 2010 however saw their reported fixed pay decline (28 out of 57, with another three unchanged). Most of these declines were due to changes in statutory leave balances or in some cases one-off retention payments made in 2009 although three of the sample – CBA's Norris, WorleyParsons' Grill and Fortescue's Forrest – saw fixed pay decline (in the case of Norris and Grill due to voluntary pay cuts).

	2009		2010		Average	Median
	Average	Median	Average	Median	% increase	% increase
Fixed pay	$2,061,722	$1,841,232	$2,105,587	$1,898,000	2.1	3.1
STI	$1,663,634	$1,215,021	$1,724,397	$1,361,818	3.7	12.1
Total excl LTI	$3,501,640	$3,049,967	$3,708,974	$3,360,000	5.9	10.2
Total pay	$5,039,593	$4,487,863	$5,473,991	$4,996,633	8.6	11.3

Table 2.6: Incumbent CEO Pay 2009 to 2010

2.3 Termination payments in 2010

This section assesses overall payments made on departure to CEOs of S&P/ASX 100 companies during the 2010 financial year relative to payments in 2008 and 2009 (including one payment made to the departing CEO of CSR, Jeremy Maycock, immediately after the end of CSR's 2010 financial year, and another payment made to the acting CEO of Suncorp, Chris Skilton). As in past years no distinction is made as to the reasons for CEO departure given companies invariably describe CEOs, even those clearly terminated for performance reasons, as retiring or resigning. There were two companies in the 2010 sample however, JB Hi Fi and Ansell, where there was no disclosure of departing CEOs receiving any termination entitlements although JB Hi Fi's outgoing CEO was retained as a consultant and has since returned to the board of the company as a non-executive director. These two cases are not included in the table below.

Termination payments for the purposes of the sample include 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	2010
Aggregate	$83,028,043[13]	$34,563,870	$5,701,176
Number of payments	13	13	5
Average	$6,386,773	$2,658,759	$1,140,235
Median	$3,504,000	$2,202,408	$1,260,000
Minimum	$793,333	$168,000	$513,079
Maximum	$18,309,786[14]	$6,386,465	$1,681,897

Table 2.7: CEO termination payments in the S&P/ASX 100 2008, 2009 & 2010

The low number of termination payments in 2010 reflects the lack of change in CEO ranks in 2010 noted elsewhere in the study. The smaller payments relative to 2008 and 2009 reflects a sample consisting of CEOs with relatively low fixed pay (termination entitlements are usually based on fixed pay), a negotiated settlement in the case of the former David Jones CEO, Mark McInnes (who received $1.5 million, below his contractual termination entitlements) and CEOs with relatively modest contractual entitlements on termination.[15] The largest payment was received by former Brambles' CEO, Mike Ihlein.

[13] Figures disclosed in currencies other than AUD were converted into AUD using the exchange rate on the disclosed date of departure.
[14] 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.
[15] Boral's CEO, Rod Pearse was included in the termination sample in 2010; his 2009 total pay included the accrual of $4.043 million in termination entitlements under his contract and therefore ranked him among the five highest paid CEOs in 2009.

2.4 Remuneration components

This section analyses the relative significance of the components of pay that make up S&P/ASX 100 CEO remuneration: Fixed pay, bonus and equity incentives. This year the analysis is of the relative proportion of total sample CEO remuneration accounted for by the three 'main' remuneration categories rather than the detailed breakdown provided in prior years. This change has been made to reflect the difficulty in gathering accurate data on the components of CEO fixed pay and the valuation of the various types of equity incentives that make up the disclosed value of equity incentives (this data is provided by a handful of the sample companies and has been estimated for others in past years).

Figure 2.6 below shows the relative importance of fixed pay, bonus and LTI value for sample CEOs in 2010. The equity component, at just under one-third of total sample remuneration of $398.6 million, was at its highest level in the past five years (the next highest was 32 percent in 2009) while the bonus was at its second lowest level at 28 percent (the lowest level was in 2009, at 27 percent, reflecting the larger number of sample CEOs receiving no bonus in 2009). Fixed pay as a proportion of the sample's total pay, at 39 percent was down from 41 percent in 2009, the highest level since 2006.

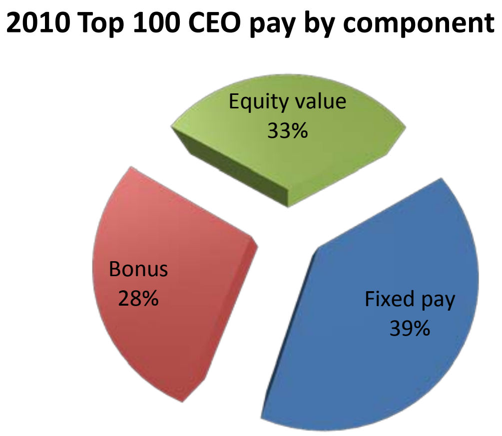

Figure 2.6: CEO pay by component in 2010

	2006	2007	2008	2009
Total sample pay	$337.2 million	$381.7 million	$360.6 million	$335.4 million
Fixed pay as %	39	33	38	41
Bonus as %	35	36	36	27
Equity value as %	26	31	26	32

Table 2.8: Fixed pay, bonus and equity incentives as a proportion of total Top 100 CEO pay 2006 to 2009

3. Pay for performance case studies

This section reviews the 10 CEOs in the 2010 sample receiving the highest total disclosed remuneration as well as the realised remuneration for these individuals. Realised pay is based either on the realised pay disclosures provided by the company (although these have been adjusted where appropriate) or based on the number of equity incentives that vested during the 2010 financial year and the share price on the date of vesting.

This section also analyses the pay and performance of the five highest paid CEOs in the sample and the five lowest paid CEOs in the sample, as in the 2009 study. Pay and performance are reviewed over five years or the CEO's tenure, whichever is most appropriate.

	CEO	2010 Total Disclosed Pay	2010 Total Realised Pay
1	Ralph Norris (CBA)	$16,157,746	$11,288,221[16]
2	Frank Lowy (WDC)	$15,964,902	$15,964,902
3	Wal King (LEI)	$14,694,850	$19,839,412[17]
4	Marius Kloppers (BHP)	$12,849,046	$14,860,749[18]
5	Mike Smith (ANZ)	$10,856,077	$8,143,027[19]
6	Gail Kelly (WBC)	$9,586,996	$8,618,750[20]
7	Nick Moore (MQG)	$9,557,589	$5,076,929[21]
8	Tom Albanese (RIO)	$9,125,706	$6,449,742[22]
9	Don Voelte (WPL)	$8,474,653	$7,541,673[23]
10	Mike Luscombe (WOW)	$8,330,417	$10,169,765[24]
Average		**$11,559,758 *($11,217,064)***	**$10,795,317**

Table 3.1: Top 10 paid CEOs 2010: Statutory basis and realised pay comparison; 2009 figure in italics.

The comparison between the disclosed and realised pay totals for the top 10 CEOs in the 2010 sample indicates that while the actual remuneration received by an executive may vary from that disclosed, it can both over- and understate total pay: Of the top 10, three received higher actual pay than that disclosed, six received less and Westfield's Lowy's pay is as disclosed given it consisted entirely of cash or non-monetary benefits. The overall average across the CEOs receiving the 10 highest disclosed pay in 2010 was, on an actual basis, little different from the statutory average. The largest variance between realised and statutory occurred at Leighton Holdings, where King received $5.146 million more than the $14.695 million disclosed.

Of the 2010 top 10, nine were among the top 10 for 2009 with the only new entrant being Macquarie CEO Nicholas Moore and the only exit being former Boral CEO Rod Pearse (ranked in the top five in 2009).[25] Of the 2009 top five, King, Lowy and Kloppers were again in the 2010 top five with Albanese on a disclosed pay basis falling to eighth.

[16] Value of equity vested taken from Commonwealth Bank, 2010 Annual Report, p. 74. The deferred component of Norris' 2010 cash bonus has been included in the above figures as it is subject to variance in limited circumstances, see p. 77.

[17] Value of options exercised taken from Leighton Holdings, 2010 Concise Annual Report, p. 67. See note 4 above for a discussion of the deferred bonus included in King's annual bonus.

[18] Value of equity vested from BHP Billiton, 2010 Annual Report, pp. 167-68 and converted from GBP to AUD on date of vesting. Dividends received on vested shares calculated on basis of dividends on BHP Billiton Limited shares paid in AUD.

[19] Value of equity vested from ANZ, 2010 Annual Report, p. 37.

[20] Value of equity vested from Westpac, 2010 Annual Report, p. 64.

[21] Based on fixed pay, cash bonus awarded and released for 2010 and earnings on restricted profit share amounts. Moore had 56,668 options vest during the 2010 financial year but the exercise price was well above the share price on the date of vesting. He also exercised 48,334 options with an exercise price of $32.26 on 21 August 2009 but did not sell the shares issued on exercise; the options had vested in prior years (the value of the options based on the closing price on 21 August 2009 was $595,475). It is not clear if any release of prior year restricted profit share (under the pre-2009 profit share retention arrangements) occurred during 2010 so no amount has been included in the above table. Approximately 58,450 shares under the legacy retained profit share arrangements were due to vest on 1 July 2010 as were other retained profit share amounts with a November 2009 value of approximately $540,000. See Macquarie Group, 2010 Annual Report, pp. 108, 109, 113 & 121 and Notice of General Meeting, 17 December 2009, p. 32.

[22] Value of equity vested taken from Rio Tinto, 2010 Annual Report, p. 148. During the 2010 financial year Albanese also exercised 276,059 options that vested in prior years and sold 190,979 for proceeds of $8.055 million (based on average exchange rate for the trade dates); the value of all the options exercised was $11.6 million. See Rio Tinto plc, Director/PDMR Shareholding Announcement, 10 March 2010.

[23] Half of the equity that vested to Voelte in 2010 was cash settled and the realised pay figure includes the cash settled equity at the fair value per cash settled share disclosed by the company. The vested shares in 2010 are included in the above figure at the closing Woodside share price on the vesting date. Woodside Petroleum 2010 Annual Report, pp. 68-69.

[24] Value of equity vested taken from Woolworths, 2010 Annual Report, p. 42.

[25] On a restated basis Westpac's Gail Kelly was ranked seventh in 2009, displacing Wesfarmers' CEO Richard Goyder who was ranked 10th in the original 2009 study. Kelly's inclusion in 2009 pushed the threshold for entry from $8.126 million to $8.328 million.

The persistence of CEOs in the top 10 from 2009 to 2010 indicates that company size and established pay levels have a significant impact on CEO pay and not just performance. This is also apparent among the bottom five CEOs on a disclosed pay basis in 2010, with three of the five – Fortescue's Andrew Forrest, ERA's Rob Atkinson and Primary's Ed Bateman also appearing in the 2009 bottom five. The two new entrants, Harvey Norman's Gerry Harvey and AWE's Bruce Wood (since retired) were ranked sixth and seventh lowest in 2009 with Goodman Group's Greg Goodman and Perpetual CEO David Deverall leaving the bottom five in 2010 after recording substantial negative values for their accrued equity incentives in 2009. Harvey in 2010 also had a negative equity pay valuation, accounting for his realised pay being higher than his disclosed pay; Bateman and Forrest did not participate in equity incentive programs in 2010 and AWE's Wood had no equity vest during the 2010 year.

	Bottom 5 CEOs in study	2010 Total Disclosed Pay	2010 Total Realised Pay
1	Andrew Forrest (FMG)	$132,699	$132,699
2	Gerry Harvey (HVN)	$738,072	$1,150,000
3	Rob Atkinson (ERA)	$867,000	$968,866[26]
4	Ed Bateman (PRY)	$950,000	$950,000
5	Bruce Wood (AWE)	$959,465	$761,268
Average		**$729,447 *($143,273)***	**$792,571**

Table 3.2: Top 10 paid CEOs 2010: Statutory basis and realised pay comparison; 2009 figure in italics.

3.1 Measures of performance used

In the following pages CEO pay is compared with four measures of corporate performance:

- Security 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 2010.

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 2010 (e.g. the year to 30 June 2010 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 2010. 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.

[26] ERA executives participate in Rio Tinto's incentive programs. The realised pay value for Atkinson is based on his 2010 cash pay plus the value of Rio Tinto awards that vested on 1 January 2010 at the 4 January 2010 closing share price for Rio Tinto shares on ASX. ERA, 2010 Annual Report, pp. 43, 47.

3.2 How to compare pay and performance?

There should not necessarily be an immediate and perfect link between CEO pay and company performance. For example, a bonus paid in a particular year may reflect performance against strategic goals which may start to influence 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 ROA and ROE should be reflected in returns to investors through security prices, dividends and other cash returns.

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 two of the top three CEOs – Frank Lowy and Wal King – continues to be dominated by cash and these men have consistently been among the highest paid CEOs over the 10 years of the ACSI longitudinal study. The 2010 year will also be the last year the two men are included in the study as both have recently retired from executive duties.

4. Five Highest Paid CEO Case Studies

4.1 CEO 1: Ralph Norris' Remuneration & Performance Analysis

	2006	2007	2008	2009	2010
Security price	$44.41	$55.25	$40.17	$39.00	$48.64
ROA	1.1%	1.1%	1.1%	0.8%	0.9%
ROE	19%	20%	19.3%	16.7%	17.2%
Base pay	N/A	$2,393,287	$3,294,495	$3,435,571	$3,265,207
Bonus	N/A	$2,939,063	$2,850,000	$2,600,000	$3,705,000
LTI	N/A	$1,237,635	$2,518,425	$3,174,181	$9,187,539
Total Pay	N/A	$6,569,985	$8,662,920	$9,209,752	$16,157,746

One year TSR	**30.7%**
One year movement in total pay	75.4%
Three year TSR	**1.8%**
Movement in total pay 2007 - 2010	145.9%

The current CEO of CBA, Ralph Norris, became CEO in September 2005 and has said he will retire as CEO in November 2011. The ROA and ROE of CBA declined from 2006 to 2010 although in large part due to the global financial crisis (ROA and ROE on the 2011 preliminary results announced shortly before completion of this report were still below 2008 levels although up from 2010). What is apparent from the pay for performance comparison is the rapid escalation in the fixed pay of Norris as CBA CEO – after being appointed on base pay of $1.9 million in the 2006 financial year, his fixed pay rose sharply in 2007 and again in 2008 to, on a total cost to shareholders' basis, well over $3 million. It remained above $3 million even following Norris' voluntary 10 percent pay cut in the first six months of the 2010 financial year.

As noted above, Norris' 'realised' pay for 2010 was, at $11.288 million, lower than his statutory pay but was still among the highest received by a top 100 company CEO in 2010. His disclosed pay was well over double his 2007 pay (his realised pay in 2010 relative to 2007 realised pay was also well over double although as a recently appointed CEO, Norris was not eligible for any long term incentives to vest in 2007). Over the three years to 30 June 2010, CBA's TSR was marginally positive. A marginal improvement in TSR over this period for a bank is arguably good performance given the dislocation in credit markets during this period although Norris' cash pay increased every year from 2007 to 2010 indicating his pay increased in both good and bad business conditions.

4.2 CEO 2: Frank Lowy's Remuneration & Performance Analysis

	2006	2007	2008	2009	2010[27]
Security price	$20.99	$21.00	$12.95	$12.55	$9.58
ROA[28]	3.1%	3.7%	3.3%	2.9%	3.3%
ROE	6.6%	7.3%	6.7%	6.1%	6.8%
Base pay	$8,888,197	$8,885,278	$9,204,760	$8,981,956	$8,964,902
Bonus	$5,500,000	$7,000,000	$7,000,000	$5,950,000	$7,000,000
LTI	$0	$0	$0	$0	$15,964,902
Total Pay	$14,388,197	$15,885,278	$16,204,760	$14,931,956	$15,964,902

One year TSR	**3.8%**
One year movement in total pay	6.9%
Three year TSR	**-20.7%**
Movement in total pay 2007 - 2010	0.5%

The 2010 CEO study will be the last to include Westfield's Frank Lowy, who retired from executive duties at Westfield's 2011 AGM, although he remains chairperson. His pay, delivered entirely in cash or cash equivalents, was up by just under 7 percent in 2010 as his 2010 bonus was paid in full (in 2009, for the first time since the restructure in 2004 which created Westfield Group, Lowy did not receive his maximum potential bonus). In 2010, Westfield's ROA and ROE increased sharply, largely due to the demerger of a 50 percent interest in Australian and NZ shopping centre assets to a new listed vehicle managed by Westfield, Westfield Retail Trust (WRT) which occurred shortly before the end of the 2010 financial year. Over the period since 2007 (and excluding the impact of the WRT demerger), ROA and ROE have declined as conditions in the property sector worsened although Westfield navigated the crisis better than almost all other listed Australian property peers, having to raise much less new equity than the rest of the sector over the period 2007 to 2010.

The pay of the executive chairperson has shown little volatility over the past five years, never falling below $14 million. Over the three years to 31 December 2010, a 20.7 percent decline in returns to securityholders has not been reflected in Frank Lowy's pay (although he is a major securityholder in the group).

[27] In December 2010, Westfield Group demerged a 50 percent interest in its Australian and NZ shopping centres to a new listed entity Westfield Retail Trust, with Westfield securityholders receiving one WRT security for each Westfield security held. The value of a WRT security is included in the TSR calculation based on the closing price on the first trading day.
[28] ROA and ROE have been calculated using operating cash flow adjusted to include net interest. This to exclude the impact of unrealised property revaluations incurred in the income statement. A cash measure has been used instead of the pro forma earnings number reported by Westfield that was used to calculate ROA and ROE in the 2009 study.

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

	2006	2007	2008	2009	2010
Share price	$17.35	$41.25	$50.85	$23.50	$28.95
ROA	8.1%	10.5%	10.9%	6.2%	7.4%
ROE	27.7%	36.7%	42.9%	23%	25%
Base pay	$4,203,000	$3,121,982	$3,457,908	$3,717,945	$3,573,826
Bonus[29]	$2,741,000	$10,457,750	$12,435,350	$8,238,246	$10,298,586
LTI	$4,219,000	$300,750	$601,500	$601,500	$822,438
Total Pay	$11,163,000	$13,880,537	$16,494,758	$12,557,691	$14,694,850

One year TSR	**28.3%**
One year movement in total pay	17%
Three year TSR	**-20.4%**
Movement in total pay 2007 - 2010	7.8%

In the 2010 financial year, the last full year of Wal King's 24 year reign as CEO, his total disclosed pay increased 17 percent as Leighton's net profit recovered from impairments in 2009 (his realised pay, as noted above, was substantially higher than his disclosed pay as he exercised options during the 2010 year).

The problems with weighting executive pay towards cash bonuses became apparent after King's departure as CEO on 31 December 2010: In its half year results on 14 February 2011, Leighton reported a 25 percent decline in half year profit despite selling a 35 percent interest in its Indian subsidiary for a pre-tax profit of US$259 million; it then, on 11 April 2011, announced post-tax impairments of $907 million, flagged a full year loss and no final dividend and announced a $757 million capital raising. A feature of King's pay during his tenure at Leighton was its insulation from ongoing risks despite the nature of Leighton's business as a contractor: Almost all of his incentive pay was delivered as cash bonuses based on achievement of profit targets with no capacity for these bonuses to be reduced should performance deteriorate – even shortly after they were paid, as occurred in 2011.

[29] Bonus and LTI have been restated for 2007 to 2009 as discussed under note 4 above.

4.4 CEO 4: Marius Kloppers' Remuneration & Performance Analysis

	2008	2009	2010
Share price	$43.70	$34.72	$37.65
ROA	22.4%	7.6%	15.2%
ROE	45.3%	15%	28.8%
Base pay	N/A	$3,868,883	$3,313,572
Bonus	N/A	$2,357,114	$2,643,284
LTI	N/A	$7,921,084	$6,892,190
Total Pay	N/A	$14,147,081	$12,849,046

One year TSR	**11.2%**
One year movement in total pay	-9.2%

The 2010 year was the second year BHP CEO Marius Kloppers was included in the ACSI CEO pay study. BHP's 2010 ROA and ROE were up substantially after the 2009 profit was reduced by substantial writedowns and TSR for the 2010 year was also up 11.2 percent (as in 2009, TSR is calculated using the share price of BHP Billiton Limited, the Australian company within the dual listed company structure).

The disclosed pay of Marius Kloppers in 2010 fell relative to 2009 largely due to his remuneration being disclosed in USD and the increased value of the AUD relative to the USD in 2010 relative to 2009 (in USD, his disclosed pay rose 8.9 percent to US$11.329 million). In both 2009 and 2010, the equity held by Kloppers under BHP's LTI, which assesses BHP's TSR over five years against a resources company peer group, vested in full leading to Kloppers' 2010 realised pay being higher than his disclosed pay. The grants that vested in 2009 and 2010 were made prior to Kloppers becoming CEO in the 2008 financial year.

4.5 CEO 5: Mike Smith's Remuneration & Performance Analysis

	2007	2008	2009	2010
Share price	$29.70	$18.75	$24.39	$23.68
ROA	1.1%	0.8%	0.6%	0.9%
ROE	20%	13.7%	10%	13.6%
Base pay	N/A	$3,612,355	$3,050,663	$3,051,168
Bonus	N/A	$2,400,000	$2,400,000	$2,500,000
LTI	N/A	$6,951,125	$5,484,940	$5,304,909
Total Pay	N/A	$12,963,480	$10,935,603	$10,856,077

One year TSR	**1.5%**
One year movement in total pay	-0.7%
Three year TSR	**8%**
Movement in total pay 2007 - 2010	N/A

No bank CEOs were among the top five paid S&P/ASX 100 CEOs in 2009 but in 2010 there were two (and three in the top 10, with NAB CEO Cameron Clyne the only major bank CEO not to make the top 10). Over the period Smith has led ANZ – he became CEO at the beginning of the 2008 financial year – ROE has fallen as has ROA, although ROA has declined less than ROE as ANZ has carried higher levels of capital in response to difficult market conditions. In interpreting ANZs performance under Smith it should be noted his tenure has coincided with the credit crisis and ANZ's TSR over the three years to 30 September 2010 has increased 8 percent.

The disclosed pay of Smith from 2008 to 2010 has fallen although this is largely due to the accounting impact of 330,000 ANZ shares he received as a sign-on incentive. The last of these sign on shares vested shortly after the end of the 2010 financial year. His cash pay, if various one-off payments on his appointment are excluded, has been steady over the period 2008 to 2010 indicating, as with Norris, that a large component of bank CEO pay is steady over time despite much of it being described as linked to performance.

5. Five Lowest Paid CEO Case Studies

5.1 CEO 1: Andrew Forrest's Remuneration & Performance Analysis

	2006	2007	2008	2009	2010
Share price[30]	$0.95	$3.38	$11.90	$3.79	$4.12
ROA	N/A	N/A	N/A	13.48%	12.2%
ROE	N/A	N/A	N/A	129.02%	49.9%
Base pay	$110,000	$111,100	$198,648	$223,877	$119,057
Bonus	$0	$110,000	$0	$15,418	$13,642
LTI	$0	$0	$0	$0	$0
Total Pay	$110,000	$221,100	$198,648	$239,295	$132,699

One year TSR	**8.7%**
One year movement in total pay	-44.5%
Three year TSR	**21.9%**
Movement in total pay 2007 - 2010	-40%

Prior to 2009, Fortescue was still in development stage making profit-based measures of performance of little use. As noted in last year's ACSI report, Fortescue is required under accounting standards to include the movement in value of a subordinated loan note in its income statement leading to volatility in profit numbers as interest on these loan notes is based on revenue derived from specific iron ore tenements (in 2010, an increased valuation of the loan note reduced reported profit by US$280 million). Fortescue's reliance on debt rather than equity financing, unusual for a non-bank major company, is also apparent from its very high ROE relative to ROA.

On a cash pay basis, Fortescue CEO Andrew Forrest, who announced his shift to non-executive chairperson in June 2011, was the lowest paid CEO in the sample in 2008, 2009 and 2010. He however has the largest equity stake in his company of any CEO in the sample; as at 26 August 2010 (the date of the Fortescue directors' report) the value of his equity stake was $4.378 billion. By comparison, Westfield's Frank Lowy also has a substantial equity interest in Westfield: As at 25 February the Lowy family's interest in Westfield Group was worth $1.74 billion. The total pay of Lowy over the past five financial years has been $77.375 million while Forrest has received $902,000 over the five years to 30 June 2010.

[30] 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.

5.2 CEO 2: Gerald Harvey's Remuneration & Performance Analysis

	2006	2007	2008	2009	2010
Share price	$3.94	$5.29	$3.09	$3.30	$3.31
ROA	7.9%	13.1%	10.9%	6.1%	6.3%
ROE	18%	26.7%	20%	11%	11.2%
Base pay	$409,895	$500,000	$650,000	$761,000	$750,000
Bonus	$0	$75,000	$350,000	$0	$400,000
LTI	$934,290	$321,879	$162,067	$281,807	-$411,928
Total Pay	$1,344,185	$896,879	$1,162,067	$1,042,807	$738,072

One year TSR	**4.2%**
One year movement in total pay	-29.2%
Three year TSR	**-30.2%**
Movement in total pay 2007 - 2010	-17.7%

The executive chairperson – and largest shareholder – of Harvey Norman, Gerry Harvey has seen his cash pay increase steadily since 2006, albeit from a low base. Over the period 2006 to 2010 his fixed pay and bonus has risen 180.6 percent to $1.15 million although no options vested during this period (leading to the negative equity value recorded in 2010).

Profitability and returns to shareholders have over the same period been negative: The share price declined 16 percent over the four years to 30 June 2010 and ROA and ROE have fallen substantially since 2008. This in part indicates the difficult environment for established retailers since the end of the credit boom. Despite the increases in his cash pay, Harvey's remuneration levels remain low by the standards of top 100 company CEOs; three of the five lowest paid CEOs in the 2010 sample, Harvey, Forrest and Bateman, are substantial shareholders in the businesses they lead (although the correlation between low pay levels and high ownership is not perfect as shown by Westfield).

5.3 CEO 3: Rob Atkinson's Remuneration & Performance Analysis

	2008	2009	2010
Share price	$19.00	$23.89	$11.13
ROA	20.6%	21.6%	3.4%
ROE	32.5%	31.6%	4.9%
Base pay	N/A	$519,000	$526,000
Bonus	N/A	$55,000	$153,000
LTI	N/A	$269,000	$188,000
Total Pay	N/A	$843,000	$867,000

One year TSR	**-52%**
One year movement in total pay	2.8%

The low pay levels of the CEO of ERA, included among the lowest five paid CEOs in the S&P/ASX 100 for the second consecutive year, reflect ERA's status as a listed subsidiary of Rio Tinto. ERA's size means that if it were separately listed its CEO would probably receive much higher levels of remuneration than would a Rio executive responsible for a division contributing (on a consolidated basis) in 2010 less than 1 percent of Rio's net profit. ERA's status as a listed Rio subsidiary also influences CEO Atkinson's pay through his participation in the Rio Tinto long term incentive scheme; ERA has no equity incentive program linked to its own performance for its senior executives.

In 2010, Atkinson's disclosed and cash pay were up modestly, from 2009 despite a substantial decline in ERA's profitability due to operational issues. TSR also fell substantially.

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

	2006	2007	2008	2009	2010
Share price	$11.90	$12.70	$5.20	$5.25	$3.56
ROA	9.3%	9.9%	0.2%	2.5%	3.5%
ROE	12.8%	14.2%	0.6%	5.6%	5.8%
Base pay	$400,000	$376,793	$400,000	$400,000	$950,000
Bonus	$0	$0	$0	$0	$0
LTI	$0	$0	$0	$0	$0
Total Pay	$400,000	$376,793	$400,000	$400,000	$950,000

One year TSR	**-28%**
One year movement in total pay	137.5%
Three year TSR	**-65.7%**
Movement in total pay 2007 - 2010	152.1%

The profitability of Primary Health Care improved in 2010, with ROA increasing substantially and ROE slightly even as the share price fell 32 percent in the 12 months to 30 June 2010. The small increase in ROE relative to ROA reflected higher equity levels in 2010 following capital raisings to reduce the debt incurred to fund the acquisition of Symbion Health in 2008.

This acquisition, as noted in last year’s study, has had a major impact on Primary’s performance, substantially reducing ROA and ROE, as well as the Primary share price. TSR over the three years from 30 June 2007, the last full year prior to the Symbion purchase is negative 65.7 percent.

In 2010, Primay’s CEO, Ed Bateman, received a significant pay increase, the first meaningful movement in his pay for at least five years. The more than doubling of his fixed pay in 2010 however has still left his pay levels well below those for all almost all other S&P/ASX 100 CEOs; as noted above he has a substantial equity interest in Primary Health Care.

5.5 CEO 5: Bruce Wood's Remuneration & Performance Analysis

	2008	2009	2010
Share price	$4.16	$2.57	$1.78
ROA	31.4%	7.6%	2.2%
ROE	39.9%	9.4%	2.7%
Base pay	N/A	$765,970	$761,268
Bonus	N/A	$168,750	$0
LTI	N/A	$288,645	$24,745
Total Pay	N/A	$1,223,365	$786,013

One year TSR	**-30.7%**
One year movement in total pay	-35.7%
Three year TSR	**N/A**
Movement in total pay 2005 - 2008	N/A

In 2010 AWE was among the smallest companies by market capitalisation in the S&P/ASX 100 and was removed from the S&P/ASX 100 in December 2010. The pay of its CEO, Bruce Wood (who has since departed the company), reflects AWE's small size relative to many other S&P/ASX 100 entities and in 2010 also reflected AWE's performance: No bonus was paid for 2010 as profits fell substantially and, as shown by Wood's realised pay of $761,268, no equity vested as the share price declined sharply.

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