CEO Pay in the Top 100 Companies: 2011

Research released by

The Australian Council of Superannuation Investors

ACSI — Australian Council of Superannuation Investors

RESEARCH PAPER

September 2012

About the Author

The Australian Council of Superannuation Investors

The Australian Council of Superannuation Investors (ACSI) provides independent research and advice to assist its member superannuation funds to manage environmental, social and corporate governance (ESG) investment risk. ACSI believes effective governance structures and processes decrease risk and potentially increase returns, because they create stability that supports the development of long-term investment strategies. ACSI's research platform serves to underpin policy positions and raise awareness of emerging governance issues.

ACSI
Ground Floor, 215 Spring Street
Melbourne VIC 3000, Australia
Website: www.acsi.org.au

Tel: +61(0)3 8677 3890
Fax: +61(0)3 8677 3889
Email: info@acsi.org.au

Ownership Matters Pty Ltd

Ownership Matters is an Australian governance advisory firm. Its principals have collective experience of more than 20 years in advising institutional investors on governance issues at ASX listed companies.

Ownership Matters Pty Ltd
Level 5, 167 Queen Street
Melbourne VIC 3000, Australia
Website: www.ownershipmatters.com.au

Tel: +61(0)3 9602 4548

Foreword

ACSI has over ten years of experience providing proxy voting research, engagement and advice on ESG investment issues in the Australian market. We are pleased to present our 11th detailed research report on CEO pay in Australia's largest listed companies.

This year ACSI has extended the focus of its research to the entire S&P/ASX 200 to capture a broader group of CEOs. These CEOs lead the ASX listed companies in which the vast majority of the Australian share portfolios of superannuation funds are invested. Over time, this larger sample group will allow ACSI to track pay levels relative to performance of a much larger cohort of CEOs.

ACSI's approach to executive pay continues to be based on the principle that executive pay should be designed to reward long-term and sustainable performance, rather than providing windfall payments for short-term profit maximisation. Executive pay continues to provide investors with an insight into the board's relationship with company management.

Results from 2011 show that fixed pay for S&P/ASX100 held steady, but bonuses fell materially in the same period. ACSI would like to attribute the fall to a more mature conversation on executive pay that is taking place between boards and investors, but ACSI also recognises that there is still a hangover from pre-GFC CEO contracts and pay levels at some companies. In the current market conditions, it is clear that boards have been listening to investor view on bonuses in light of company returns. ACSI has seen this level of dialogue and engagement increase with the advent of the 'two strikes' rule on executive pay.

Through the provision of evidence based research, ACSI seeks to contribute to achieving improvements in CEO remuneration structures across the Australian market. The release of the research is timely on the eve of the 2012 AGM season. ACSI will use the insights provided by this study to underpin voting decisions and future engagement with Government, companies, and other institutional investors. ACSI will continue to promote a framework under which executive pay remains at reasonable levels aligned to long term shareholder value.

Sincerely,

Ann Byrne
Chief Executive Officer, ACSI

Table of Contents

1. Executive Summary 5

2. Introduction 7

3. The highest paid S&P/ASX200 Chief Executive Officers 8
   - 3.1 The Top Ten Top 100 CEOs 8
   - 3.2 The Bottom Ten Top 100 CEOs 9
   - 3.3 The Top Ten ASX101 – 200 CEOs 10
   - 3.4 The Bottom Ten ASX101 – 200 CEOs 11

4. Components of CEO Pay 13
   - 4.1 Fixed pay 13
   - 4.2 The Top 100 13
   - 4.3 The ASX101-200 15
   - 4.4 Annual bonus – Top 100 15
   - 4.5 Annual bonus – ASX101-200 17
   - 4.6 Cash pay – Top 100 18
   - 4.7 Cash pay – ASX101-200 19
   - 4.8 Total statutory pay – Top 100 20
   - 4.9 Total statutory pay – ASX101-200 21

5. Pay and incumbency: S&P/ASX100 22

6. Termination payments in 2011: S&P/ASX200 23
   - 6.1 Termination payments – Top 100 23
   - 6.2 Termination payments – ASX101-200 24

7. Pay for performance case studies 25
   - 7.1 Pay for performance methodology 25
   - 7.2 The problem with measuring performance and pay 25
   - 7.3 Five highest paid S&P/ASX100 CEO case studies 26
   - 7.4 Five lowest paid S&P/ASX100 CEO case studies 31
   - 7.5 Five highest paid ASX101-200 CEO case studies 36
   - 7.6 Five lowest paid ASX101-200 CEO case studies 41

Appendices 46
- Appendix A: Top 100 CEO fixed pay data 2001 - 2011 46
- Appendix B: Top 100 CEO bonus data 2001 - 2011 46
- Appendix C: Top 100 CEO cash pay data 2001 - 2011 47
- Appendix D: Top 100 CEO statutory pay data 2001 - 2011 47

1. Executive Summary

Methodology

The 2011 ACSI CEO Pay study is the first year the study has been extended to include CEOs of all S&P/ASX200 companies and not just those in the S&P/ASX100.

The study covers a sample of all CEO's of S&P/ASX200 companies as at 30 June 2011, with financial years ending in 2011 (so from 31 March to 31 December 2011). The delay in reporting remuneration outcomes for the 2011 year reflects the lag in reporting for companies with a 31 December 2011 year end. CEO's not in office for the full year are excluded from the sample, and CEO's who received no bonus are excluded in calculating median bonus figures.

Throughout the report ACSI has divided the S&P/ASX200 into the 'Top 100' and 'ASX 101-200' (this second group includes all S&P/ASX200 *ex* S&P/ASX100 companies). Both samples included 75 CEOs, with the ASX101-200 cohort further separated into 18 exploration companies and 57 established entities.

Summary findings

- The highest paid Top 100 CEO in the sample on a reported pay basis in 2011 was BHP Billiton's Marius Kloppers whose reported pay converted to AUD in 2011 was $11.804 million. This was well below the highest paid CEO on reported basis in 2010, CBA's Ralph Norris who received $16.158 million.
- The highest paid CEO in the ASX101-200 was Seven Group's Peter Gammell, whose total pay for 2011 was $4.924 million.
- Analysis of the pay outcomes shows variations in reported statutory pay data and the actual pay received by CEO's. Analysis of the highest and lowest paid CEO's in the Top 100 and ASX101-200 shows that of 40 CEO's – 13 had higher realised than reported pay, 20 had lower realised pay and 7 had realised pay consisted with reported pay.
- The largest gap between realised pay and reported pay was at Aquila Resources where in 2011 executive chairperson Tony Poli had disclosed pay of $572,000 but enjoyed a **$169.4 million gain** on exercise of options granted in 2005.

1.1 Fixed pay

- In 2011 the average and median fixed pay for Top 100 CEOs both rose; with the median Top 100 CEO now receiving fixed pay of $1.914 million, up from $1.823 million in 2010.
- In 2011 average fixed pay increased only slightly from 2010, moving from $1.929 million to $1.947 million.
- Average and median fixed pay for Top 100 CEOs dwarfed that of ASX101-200 CEOs, with the average CEO in this group receiving fixed pay of $930,000, less than half of the Top 100 average.
- CEO's of exploration companies in the ASX101-200 showed an average fixed pay of $643,000 that was substantially lower than the other CEOs in the ASX101-200 whose average was $1.021 million.
- Over the five years to 2011 the rate of increase in CEO fixed pay has also slowed in Top 100 companies. Over the period 2001 to 2011, average fixed pay rose 8.2 percent per annum and the median 9.4 percent while over the past five years, the rate of annual growth has slowed to 3.9 percent for the median and 1.7 percent for the average.

1.2 Bonus paid

- Bonuses for Top 100 CEOs fell in 2011, even taking into account the exit from the sample of Wal King and Frank Lowy, two CEOs who typically received very high bonuses.
- The average bonus in 2011 fell from $1.584 million in 2010 to $1.255 million while the median also declined from $1.122 million to $1.098 million.
- The overwhelming majority of sample CEOs – close to 90 percent - still received a bonus in 2011.
- Bonuses for the ASX101-200 cohort were substantially lower with the average bonus for this group $422,000, with just under a quarter receiving no bonus.

1.3 Cash pay

- In 2011 average Top 100 CEO cash pay (bonus plus fixed pay) declined 8.9 percent to $3.055 million as bonuses declined. Median cash pay rose to a record $2.945 million reflecting higher pay levels overall and a declining number of very highly paid CEOs in the sample.
- Average cash pay in the ASX101-200 was $1.246 million and $1.384 million excluding exploration entities.
- In exploration companies, the average CEO received cash pay of $806,000 during 2011.

1.4 Total pay

- Average reported pay for Top 100 CEOs in 2011 declined from $4.991 million to $4.725 million although median reported pay, as in the case of cash pay, rose to $4.518 million, the highest level in the history of the ACSI Top 100 CEO Pay study.
- The average reported pay for ASX101-200 CEOs in 2011 was $1.7 million.
- The average exploration entity CEO had reported pay of $1.576 million, close to the average of $1.74 million for non-exploration entity CEOs as the value of hefty option allocations for exploration CEOs closed the substantial gap in cash pay.

1.5 Termination payments

- The average termination payment to a departed CEO in the Top 100 sample in 2011 was $2.918 million.
- The highest of the 12 payments made being $10.9 million to Leighton Holdings' former CEO Wal King. This single payment helped to lift the average well above the $1.14 million reported for 2010. Shareholders in ASX101-200 companies funded $14.946 million across 11 termination payments with the highest payment of $3.63 million received by former Virgin CEO Brett Godfrey.

2. Introduction

The 2011 CEO Pay study has been extended to cover the pay not only of CEOs of companies in the S&P/ASX100 ('Top 100') but also that of CEOs of companies ranked 101 to 200 in the S&P/ASX200 (defined throughout this report as the 'ASX101-200'). Over time, this larger sample group will allow ACSI to track pay levels relative to performance of a much larger cohort of CEOs. These CEOs lead the ASX listed companies in which the vast majority of the Australian share portfolios of super fund members are invested.

As this is the first year ACSI has covered CEO pay in companies ranked 101 to 200, no comparison data is available (other than for pay for performance reviews over five years for the highest and lowest paid members of the 101 to 200 cohort). The methodology for the Top 100 study has been extended to the 101 to 200 resulting in a sample of CEO pay at 75 Top 100 and 75 101 to 200 entities.

Not all the S&P/ASX200 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. QR National was not included on the basis that it transitioned from public to private ownership during the 2011 financial year.
- Some of the entities in the S&P/ASX200 index as at 30 June 2011 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 are domiciled outside of Australia and hence are subject to different remuneration disclosure requirements. As in past years, James Hardie (now domiciled in Ireland), and Oil Search (domiciled in PNG) are included in the sample, as are APA Group and ConnectEast (internally managed Australian trusts) because they disclose remuneration for their CEOs on the same basis as required under Australian regulations.

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 companies with joint CEOs such as Seek, part of the S&P/ASX100, and Charter Hall, part of the S&P/ASX200, 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, Harvey Norman's Gerry Harvey is treated as CEO for the purposes of this study despite being executive chairperson while Crown's CEO for the purposes of this study is Rowen Craigie and not James Packer, the executive chairperson.

3. The highest paid S&P/ASX200 CEO's

3.1. The Top Ten Top 100 CEOs

	CEO	2011 Statutory Pay	2011 Realised Pay
1	Marius Kloppers (BHP)	$11,803,992	$17,343,612[1]
2	Mike Smith (ANZ)	$10,038,896	$14,748,956[2]
3	Gail Kelly (WBC)	$9,864,816	$8,604,292[3]
4	Nick Moore (MQG)	$8,693,404	$6,212,736[4]
5	Cameron Clyne (NAB)	$8,675,977	$5,615,393[5]
6	Ralph Norris (CBA)	$8,638,172	$12,690,509[6]
7	Tom Albanese (RIO)	$8,350,194	$6,678,730[7]
8	Louis Gries (JHX)	$8,110,727	$5,213,325[8]
9	Terry Davis (CCL)	$7,939,976	$8,969,142[9]
10	Rowen Craigie (CWN)	$7,710,275	$3,600,000
Average		**$8,982,643 *($11,559,758)***	**$8,967,670**

Table 3.1: Top ten paid CEOs in the Top 100 2011: Statutory basis and realised pay comparison; 2010 figure in italics.

In 2011 the highest paid Top 100 company CEO, BHP Billiton's Marius Kloppers, was paid substantially less than the highest paid CEO in 2010, CBA's Ralph Norris who in 2010 had statutory total pay of $16.158 million. In fact, the statutory pay for Kloppers for 2011 would have ranked him only the fifth highest paid CEO in 2010 (and below his own 2011 statutory pay of $12.849 million).

This decline in the statutory pay of very highly paid Top 100 CEOs was apparent in the decline in the statutory average pay for a Top 10 CEO from $11.56 million in 2010 to $8.983 million. This decline was in large part due to the retirement of two very highly paid CEOs, Westfield's Frank Lowy and Leighton Holdings' Wal King who was ranked second and third respectively in the 2010 study and had aggregate statutory pay of $30.66 million in 2010. Had both men not retired in 2010 and received the same remuneration in 2010 as in 2011 the average for the Top 10 in 2011 would have increased to $10.572 million.

Top 10 results show a consistency of pay outcomes at large companies. Six of the Top 10 highest paid CEO's in 2011 were also in the Top 10 for 2010. The remaining four 2010 Top 10 CEOs not in the 2011 sample all retired. This could be explained by relatively consistent performance resulting in consistent pay outcomes, the influence of accounting standards amortising equity pay over a number of years and 'smoothing' reported pay or the fact a large component of CEO pay appears to accrue regardless of performance –of the Top 10, nine in 2011 received fixed pay of more than $2.8 million and bonus outcomes for large company CEOs have been remarkably persistent in recent years (so section 4.2 on annual bonuses below for more information).

---

[1] Value of equity vested from BHP Billiton, 2011 annual report, pp. 143, 145 and converted from GBP to AUD (or USD in the case of LTIP dividend equivalent payment or DEP) on date of vesting. DEP on deferred bonus shares calculated on basis of dividends on BHP Billiton Limited shares paid in AUD.
[2] Value of equity vested based on disclosures on page 38 of the 2011 ANZ annual report and the closing share price on the date of vesting.
[3] Value of equity vested based on disclosures on pp. 187-88 of Westpac's 2011 annual report and the closing share price on the date of vesting.
[4] Based on fixed pay, cash bonus paid for 2011 and the value of vested MEREP awards released during 2011 and disclosed on p. 118 of the 2011 MQG annual report as the date these allocations vested is not clear. it does include releases of restricted profit share amounts in 2011 as disclosed on p. 68 of the 2012 annual report.
[5] Value of equity vested based on disclosures on pp. 29-31 of the 2011 NAB annual report and the closing share price on the date of vesting. The amount also includes dividends on unvested LTI shares awarded at the 2009 and 2010 AGMs.
[6] Value of vested incentive from CBA 2011 annual report, p. 75 and includes deferred cash component of 2011 bonus as it is subject to forfeit only in limited circumstances.
[7] Value of equity vested based on disclosures on pp. 111-12 in the 2011 RIO annual report, the closing share price on the date of vesting and converted from GBP to AUD on the day of vesting.
[8] Value of equity vested based on change of director interest notices for Gries on 8 June 2010 and 16 September 2010 and the closing share price on the date of vesting.
[9] Value of equity vested based on change of director interest notice for Davis on 4 March 2011 and the value of shares acquired to satisfy the vesting of rights under the LTIP.

ACSI noted in the 2010 CEO pay study that 'actual' or 'realised' pay levels for CEOs were reasonably consistent with statutory reporting of pay outcomes. This has continued in the 2011 study, with the gap between the average actual pay for Top 10 CEOs and their statutory pay less than $15,000. This narrow difference in the average obscured a large variation from Crown, where realised pay was less than half of the statutory figure of $7.71 million and BHP, where Marius Kloppers' realised pay in 2011 was more than $5.5 million higher than statutory reported pay (in 2010, Kloppers' realised pay was also substantially higher than his statutory total).

As an example of the differences between statutory and realised pay, in Kloppers' case the difference between statutory and realised pay was as follows:

- **Fixed pay costs:** $3.091 million (included in both statutory and realised pay).
- **Cash bonus:** $2.386 million (included in both statutory and realised pay).
- **Accrued value of equity incentives:** $6.327 million (included only in statutory pay). This comprises the amortised *estimated* value for 2011 of long term incentive equity grants vesting over the periods 2006 - 2011, 2007 – 2012, 2008 – 2013, 2009 – 2014 and 2010 – 2015 and shares awarded as part of the deferred annual bonus vesting over the periods 2008 to 2010, 2009 to 2011 and 2010 to 2012, as well as an estimate of the value of dividends payable on any of these LTI and bonus shares on vesting.
- **Value of vested equity incentives:** $11.867 million (included only in realised pay). This includes the vesting of 225,000 BHP shares in September 2010 based on performance over the period 2005 to 2010 and the dividends that would have accrued on these shares over the five year vesting period. It also includes the vesting of 95,847 shares in September 2010 representing the shares awarded as half of the bonus for the 2008 financial year and the dividends that would have accrued on these shares over the two year vesting period.

3.2 The Bottom Ten Top 100 CEOs

	CEO	2011 Statutory Pay	2011 Realised Pay
1	Andrew Forrest (FMG)	$426,542	$335,388
2	Bernie Brookes (MYR)	$913,425	$1,860,829[10]
3	Ed Bateman (PRY)	$950,000	$950,000
4	Gerry Harvey (HVN)	$1,150,000	$1,150,000
5	Dennis Cliché (CEU)	$1,290,333	$936,850[11]
6	Dennis O'Neill (BBG)	$1,625,000	$1,619,399[12]
7	Nicole Hollows (MCC)	$1,988,249	$2,193,709[13]
8	Terry Smart (JBH)	$2,123,503	$2,135,271[14]
9	Terry Burgess (OZL)	$2,284,815	$1,944,461
10	Mick McCormack (APA)	$2,314,281	$2,062,984[15]
Average		**$1,506,615 *($1,183,952)***	**$1,518,889**

Table 3.2: Lowest ten paid CEOs in the Top 100 2011: Statutory basis and realised pay comparison; 2010 figure in italics.

[10] Realised pay is fixed pay for 2011. Brookes' 2011 statutory pay includes a negative value for equity as amounts accrued in 2010 relating to options were reversed on the basis the earnings hurdles are unlikely to be achieved.
[11] Based on fixed pay and cash bonus for 2011. A proportion of the 'median term incentive' which vested in 2011 is not included as it was not possible to accurately separate the amounts accrued under the MTI and the amounts actually paid.
[12] This amount includes dividends paid on unvested LTI shares awarded at the 2008, 2009 and 2010 AGMs.
[13] Value of equity vested based on the price paid to acquire shares on-market to satisfy vested rights under the LTI as disclosed in a change of director interest notice for Hollows lodged on 9 September 2010.
[14] Value of equity based on proceeds from exercise of 35,000 options announced in a change of director interest notice for Smart on 3 September 2010.
[15] Value of cash settled equity based on disclosure on page 18 of APA's 2011 annual report.

It is clear from a comparison of the realised and actual pay numbers from the highest and lowest paid CEOs in the Top 100 that statutory pay numbers, while not accurate, are reasonable indicators of overall pay levels. What is also clear is that the remuneration policies in particular companies have a substantial impact on pay levels given the persistence of the same names and companies among the highest and lowest paid CEOs.

Among the bottom 10 for 2011, four were also among the lowest 10 for 2010 (Andrew Forrest, Ed Bateman, Mick McCormack and Gerry Harvey) and of the other six members of the 2010 group, only one was still a member of the Top 100 CEO cohort for the 2011 sample (WorleyParsons' John Grill who in 2011 was the 25th lowest paid CEO in the sample). Fortescue in the future will not however form part of the lowest 10 paid CEOs with Forrest's successor, Nev Power, having starting fixed pay of $1.8 million per annum and an annual incentive opportunity of $2.7 million.[16]

3.3 The Top Ten 101 – 200 CEOs

	CEO	2011 Statutory Pay	2011 Realised Pay
1	Peter Gammell (SVW)	$4,924,362	$4,507,279
2	Todd Hannigan (AZT)	$4,431,928	$1,504,806
3	Mark Chellew (ABC)	$3,553,131	$4,268,340[17]
4	David Southon & David Harrison (CHC)	$3,444,544	$2,619,770
5	Stephen Parsons (GRY)	$3,252,377	$5,586,386[18]
6	Jonathan Leslie (EXT)	$3,144,182	$2,566,976[19]
7	Nick Bowen (MAH)	$3,008,606	$1,259,882
8	Karl Simich (SFR)	$2,977,799	$2,332,706[20]
9	John Borghetti (VAH)	$2,813,000	$1,994,000
10	Sue Morphett (PBG)	$2,746,888	$2,337,119
Average		**$3,429,682**	**$2,897,726**

Table 3.3: Top ten paid CEOs in the 101-200, 2011: Statutory basis and realised pay comparison

There is a substantial gap between the highest paid CEOs of the Top 100 companies in the S&P/ASX200 and the highest paid CEOs of the ASX101-200 of the Top 200. This is apparent on both a statutory and realised pay basis – the highest paid CEO on a statutory basis in the ASX101-200, Seven Group's Peter Gammell, received total statutory pay of $4.924 million in 2011 which would have ranked him 33rd in the Top 100 in 2011. The CEO of the ASX101-200 ranked 10th on a total pay basis, Pacific Brands' Sue Morphett, would have ranked 60th in the Top 100. This indicates that company size has a substantial influence on pay outcomes despite the fact that the role maybe more difficult in smaller companies that cannot afford the substantial management infrastructure enjoyed by major listed companies.

[16] As Power became CEO on 18 July 2011 he will not appear in the ACSI CEO pay study until the study covering financial years ending in 2013 as Fortescue's financial year is from 1 July to 30 June.
[17] Value of equity based on disclosures on pp. 17-18 of ABC's 2011 financial report and the closing share price on 1 May 2011.
[18] Value of equity reflects the disclosed value of options exercised on p. 28 of the 2011 annual report and the price received for 2 million options 'disposed' disclosed in a change of director interest notice for Parsons on 10 March 2011.
[19] Value of equity based on disclosures on p. 47 of the 2011 EXT annual report and the closing share price on 5 April 2011.
[20] Value of cash-based equity based on disclosures on pp. 54 & 89 of the 2011 SFR annual report.

As with the highest paid Top 100 CEOs, there is often a substantial gap at an individual level between statutory and realised pay among the Top 10 of the ASX101-200. The largest discrepancy is between the $4.432 million in statutory pay reported for Aston Resources' then CEO Todd Hannigan and his actual pay of $1.505 million with the difference owing to the accounting valuation of equity incentives.

The next largest was $2.334 million between the realised pay of $5.586 million enjoyed by Galaxy's Stephen Parsons and the reported statutory pay of $3.252 million. This discrepancy was due to Parsons' exercising and disposing of vested options during the 2011 financial year worth a total of $4.74 million.

3.4 The Bottom Ten ASX 101 – 200 CEOs

	CEO	2011 Statutory Pay	2011 Realised Pay
1	Mark Clark (RRL)	$365,053	$365,053
2	Kerr Neilson (PTM)	$417,081	$417,081
3	Robert Hosking (KAR)	$445,562	$4,520,562[21]
4	Stephen Price (FWD)	$506,891	$443,462
5	Peter Wade (MIN)	$553,600	$553,600
6	Tony Poli (AQA)	$572,000	$169,932,198[22]
7	John De Stefani (BOW)	$597,496	$972,470[23]
8	Peter Bond (LNC)	$637,981	$637,981
9	Ian Little (ENV)	$673,342	$673,342
10	Mark Calderwood (PRU)	$698,750	$1,598,750[24]
Average		**$546,776**	**$18,011,450**

Table 3.4: Lowest ten paid CEOs in the 101-200, 2011: Statutory basis and realised pay comparison

The largest gap between realised and statutory pay among the highest and lowest paid CEOs across the two tranches of the S&P/ASX 200 arose for the 10 lowest paid CEOs in the Bottom 100. The executive chairperson of Aquila Resources, Tony Poli, received relatively modest cash pay of $572,000 in the 2011 year and was granted no options. In December 2010 however he exercised 5 million options approved at the 2005 AGM with an exercise price of $4 each and received 19.166 million shares in exchange for a total value at the time of exercise of $169.36 million (the shares were equivalent to 5.96 percent of the company at the time they were exercised).

Poli received more share options than were originally granted due to the impact of subsequent bonus issues. A bonus issue, as defined in the ASX Listing Rules, is a pro rata issue of securities to holders of ordinary securities for which no consideration is payable. Under ASX Listing Rule 6.22.3 options are adjusted following a bonus issue to include the right to receive shares on exercise equivalent to the number of shares issued under all bonus issues prior to the exercise of the option.

[21] Value of equity reflects the disclosed value of options exercised on p. 28 of the 2011 KAR annual report.
[22] Value of equity reflects the disclosed value of options exercised on p. 50 of the 2011 AQA annual report.
[23] Value of equity reflects the disclosed value of options exercised on p. 37 of the 2011 BOW annual report.
[24] Value of equity reflects the disclosed value of options exercised on p. 28 of the 2011 PRU annual report.

Over the life of the options Aquila conducted six bonus issues, with the record date for the last occurring just before exercise.

The lowest paid CEOs of the ASX101-200 were dominated by developing resources companies with six of the 10 – including Aquila – still required to file quarterly cashflow statements at their 2011 balance date. The largest discrepancies between realised and statutory pay also arose at these entities largely due to options when exercised being worth substantially more than forecast (in many cases – Aquila, Karoon Gas, Perseus Mining - these companies disclosed no value for equity incentives in their 2011 annual report as the equity incentives had already vested and under accounting standards the estimated value of share based payments is spread across the vesting period). Also prominent among this group was CEOs with substantial shareholdings with four of the 10 (Linc's Bond, Aquila's Poli, Karoon's Hosking and Platinum's Neilson) holding 5 percent or more of the company.

4. Components of CEO Pay

4.1 Fixed pay

Fixed pay for the purposes of the study includes components of CEO pay that are paid irrespective of performance.

These typically include:

- Salary.
- Superannuation, including the increased value of defined benefit pension accruals.
- Leave accruals and other entitlements.
- Accrued end-of-service payments.
- Non-monetary benefits.

The 2011 pay figures are also distorted by payments for departing CEOs who served a full year but had entitlements associated with their departure included in their 2011 pay totals. This was the case for three retiring Top 100 CEOs, the ASX's Robert Elstone, Newcrest's Ian Smith and Bank of Queensland's David Liddy: Elstone received $750,000 for agreeing to amend his contract as ASX sought a successor and Smith received $2.25 million termination payment on retiring from Newcrest (he was announced as Orica's next CEO on 24 October 2011). This payment resulted in Smith being ranked as having the highest fixed pay in the sample for 2011. The fixed pay for Liddy in 2011 also included $567,000 in termination payments.

4.2 The Top 100

For the Top 100 CEOs median and average pay both increased in 2011. This was despite the retirement of Frank Lowy as executive chairperson of Westfield whose fixed pay of more than $8 million had been for many years the highest in the ACSI Top 100 CEO sample. Average CEO fixed pay in 2011 was $1.947 million, an increase of just under 1 percent from 2010's $1.929 million while median fixed pay rose 5 percent to $1.914 million. The median fixed pay in 2011 was the highest in the history of the study and continued a trend observed in recent years across Top 100 CEO packages where 'outlier' CEOs whose pay is much larger than that of other CEOs in the sample are less common while the pay of the entire cohort has risen steadily. This has been reflected in small increases or decreases in average pay levels but steady increases over time in median pay levels.

	2011	2010	2006	2001	One year increase	Five year p.a increase	From 2001 p.a increase
Median	$1,914,050	$1,823,168	$1,579,292	$780,975	5.0%	3.9%	9.4%
Average	$1,946,748	$1,929,062	$1,789,826	$888,407	0.9%	1.7%	8.2%
Highest	$4,573,000	$8,964,902	$8,888,197	$2,650,565			
Lowest	$277,638	$119,057	$394,769	$52,055			

Table 4.2: Fixed pay, S&P/ASX100[25]

[25] Full fixed pay data over the history of the longitudinal study is disclosed in Appendix 1. The 2001 figures exclude News Corporation; data inclusive of News is available in the Appendix.

The summary table above also indicates that over the five years to 2011 the rate of increase in CEO fixed pay has also slowed: Over the period 2001 to 2011, average fixed pay rose 8.2 percent per annum and the median 9.4 percent while over the past five years, the rate of annual growth has slowed to 3.9 percent for the median and 1.7 percent for the average. This indicates that the advent of the Global Financial Crisis and subsequent subdued market and economic conditions has been reflected in slower pay increases for executives. ACSI also notes that the prediction of management lobbies in 2009 that capping senior executive termination payments at 12 months' salary without shareholder approval would lead to an explosion in fixed pay is not apparent from the data for the Top 100.

The decline in the rate of growth in Top 100 CEO fixed pay is also readily apparent from the below graph: Over the five years to 2011, average Top 100 CEO pay has not kept pace with inflation or average weekly ordinary full time earnings but over the past 10 years CEO pay has risen twice as fast as earnings and more than three times as fast as inflation.[26]

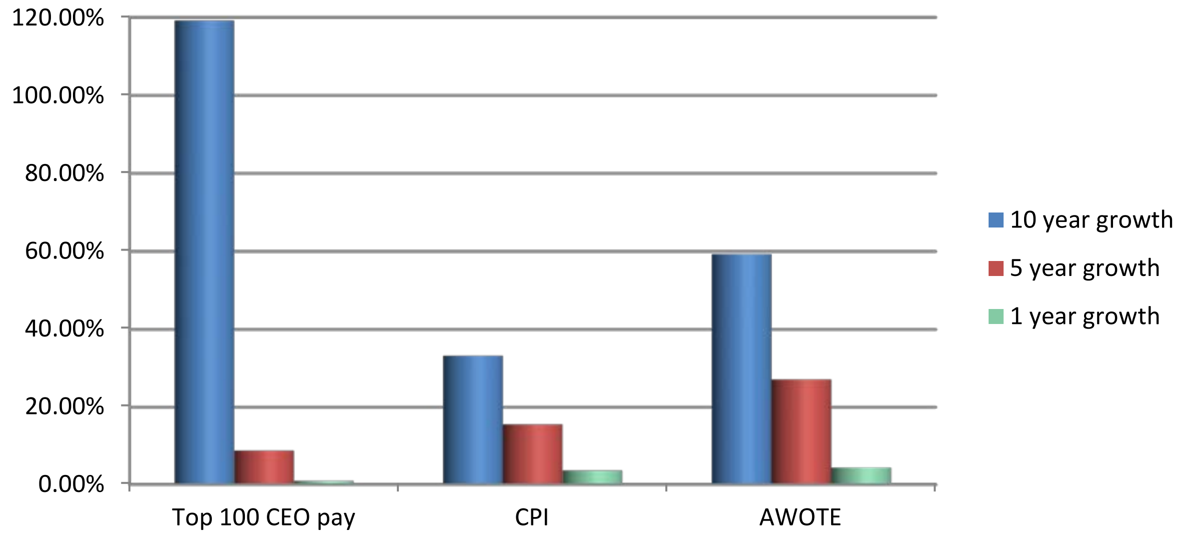

Figure 1: S&P/ASX100 average CEO pay relative to inflation and average weekly ordinary time earnings.

The range of fixed pay outcomes is also consistent with the influence of outliers such as Westfield's Frank Lowy on the sample declining and a steady increase across the board in CEO fixed pay. In 2011, 33 of the 75 sample Top 100 CEOs (44 percent) received fixed pay of more than $2 million, up substantially from 36 percent in 2010 (and 37 percent in 2009) while eight of this group (11 percent) received fixed pay of more than $3 million equivalent to 2010. Of the sample, seven (9 percent) received fixed pay of less than $1 million, down from 13 percent in 2010. The lowest fixed pay for any Top 100 CEO was again received by Fortescue's Andrew Forrest (who retired as CEO shortly after the end of the 2011 financial year) although his 2011 fixed pay increased from $119,000 in 2010 to $278,000 in 2011.

[26] Inflation is measured using the all capital cities all groups consumer price index for June 2001, June 2006, June 2010 and June 2011 from the Australian Bureau of Statistics (ABS) catalogue number 6401.0. Earnings are measured using the average weekly adult ordinary time, full time earnings for May 2001, May 2006, May 2010 and May 2011 from ABS catalogue number 6302.0.

4.3 The ASX101-200

The substantial gulf in fixed pay between Top 100 and ASX101-200 CEO pays is starkly apparent from the results of ACSI's inaugural review of CEO pay across the S&P/ASX200. The average fixed pay for a ASX101-200 CEO in 2011 was $930,358, less than half of the Top 100 average, while the median at $823,493 was also substantially less than the median for the Top 100.

	Median	Average	Minimum	Maximum
Fixed pay	$823,493	$930,358	$280,351	$3,007,279
Fixed pay – excluding exploration entities	$906,768	$1,021,167	$312,523	$3,007,279
Fixed pay – exploration entities	$607,480	$642,794	$280,351	$1,122,596

Table 4.3: Fixed pay, S&P/ASX 101-200 CEOs

The wide variety of entities included in the ASX101-200 is also apparent from the above table which separates the pay for CEOs of established companies from those who are CEOs of exploration entities (a group of 18 entities defined as those required to publish quarterly cashflow statements with ASX as at their 2011 year-end). It is not surprising that given the lack of recurrent cashflow for exploration entities that average and median fixed pay levels are substantially lower for CEOs of this group.

The highest fixed pay for a CEO of an ASX101-200 company was received by Seven Group Peter Gammell (but for the existence of controlling shareholder Kerry Stokes, Seven would be included in the S&P/ASX100). Only one-third (25) of the ASX101-200 CEOs in the sample received 2011 fixed pay of more than $1 million compared with 91 percent of the Top 100 and only three received fixed pay of more than $2 million: Gammell, the combined CEOs of Charter Hall and Cabcharge's Reg Kermode.

4.4 Annual bonus – Top 100

Average and median bonuses for Top 100 CEOs fell in 2011 to levels not seen since well before the financial crisis. The average bonus at companies where the CEO received a bonus declined 20.8 percent from 2010 to $1.255 million and the median fell 2.1 percent to $1.098 million. This was the lowest average bonus since 2003 and the lowest median since 2005. Part of the explanation for the large decline in the average was the absence from the sample of the two highest bonuses paid in 2010: The $10.298 million paid to Leighton's Wal King and the $7 million bonus received by Westfield's Frank Lowy.

	2011	2010	2006	2001	One year increase (decrease)	Five year p.a increase (decrease)	From 2001 p.a increase
Median	$1,098,300	$1,122,000	$1,005,890	$377,936	(2.1%)	1.8%	11.3%
Average	$1,255,212	$1,584,120	$1,683,252	$769,125	(20.8%)	(5.7%)	5%
Highest	$3,367,965	$10,298,586	$15,833,577	$6,239,739			
Lowest	$57,500	$13,642	$100,000	$73,000			

Table 4.4: Annual bonus received, S&P/ASX100 CEOs[27]

[27] Full bonus pay data over the history of the longitudinal study is disclosed in Appendix 1. The 2001 figures exclude News Corporation; data inclusive of News is available in the Appendix. The bonus data for 2006 (and every year up to and including 2010) has been restated following a change to how UGL discloses bonuses; see Appendix 1 for more information.

Another explanation for the decline in disclosed bonuses was deferral, with a significant part of the annual bonus for 21 CEOs in the sample being delivered as equity (or cash payments linked to equity). Bonuses delivered in equity or equity equivalents do not appear in the 'annual bonus' disclosed in statutory remuneration tables and instead are disclosed in the same way as equity incentives with the estimated value allocated over the vesting period.

Bonus deferral is essentially now a regulatory requirement at APRA-regulated entities. The bonus accrued and the bonus received across APRA-regulated entities companies in the sample (excluding Bank of Queensland, where the CEO retired at year end and QBE, where no bonus was paid for 2011) are summarised below:

CEO (company)	Bonus received	Bonus accrued
Ralph Norris (CBA)	$3,367,965	$3,276,000[28]
Nick Moore (MQG)	$2,700,654	$9,002,180
Gail Kelly (WBC)	$2,376,000	$3,960,000
Cameron Clyne (NAB)	$2,025,000	$4,050,000
Mike Smith (ANZ)	$1,750,000	$3,300,000
Craig Dunn (AMP)	$1,344,000	$2,240,000
Mike Hawker (IAG)	$1,104,000	$1,656,000
Dominic Stevens (CGF)	$1,050,000	$2,100,000
Patrick Snowball (SUN)	$990,000	$1,980,000
Mike Hirst (BEN)	$300,000	$300,000[29]

Table 4.5: Bonus received and bonus accrued, selected financials CEOs in 2011

As a proportion of the sample, the number of companies where the annual bonus incorporated a deferred component rose marginally in 2010 from 26 percent to 28 percent. This included Qantas, which after deferring the entirety of CEO Alan Joyce's 2010 bonus of $2.88 million into shares – meaning it disclosed Joyce as having received no bonus in 2010 – again deferred the entirety of his bonus of $1.78 million into equity or payments linked to equity and again was not required to disclose any bonus for 2011. The case of Joyce however indicates that even if the impact of deferral is taken into account bonuses decreased in 2011 relative to 2010 across the sample as the average bonus accrued in 2011 was $1,657,376, down 13 percent from the $1,904,904 in 2010 (although the median declined only slightly, from $1,511,985 in 2010 to $1.5 million for 2011).

As in prior years the average and median bonus figures exclude CEOs who received no bonus. In 2011 nine CEOs (12 percent of the sample) were disclosed as receiving no bonus (including Joyce), up from 10 percent in 2010. Of the eight CEOs other than Joyce who received no bonus in 2011, three (Primary, Seek and Lynas) did not operate formal bonus schemes for their CEOs. In four cases – Myer, David Jones, Billabong and QBE – no bonus was paid as the performance hurdles were not achieved. The other instance was Rio Tinto where in the wake of another substantial impairment of assets relating to the 2007 Alcan acquisition the CEO, Tom Albanese (and the CFO) elected not to receive any bonus for 2011. This is the eighth consecutive year that more than 80 percent of Top 100 CEOs have received a bonus.

[28] The bonus received for Norris is higher than the bonus accrued as the 2011 bonus received figure includes interest payments from the deferred component of the 2010 bonus. As noted above, half of the annual bonus for CBA's CEO is delivered in cash but deferred for 12 months. As the deferred component may only be forfeited in limited circumstances it is included in 'bonus received'.
[29] Bendigo & Adelaide Bank in its 2011 financial report (see pp. 67, 73) notes that one-third of the bonus awarded is deferred for two years into shares. The bonus disclosed in the statutory remuneration table however includes this deferred component.

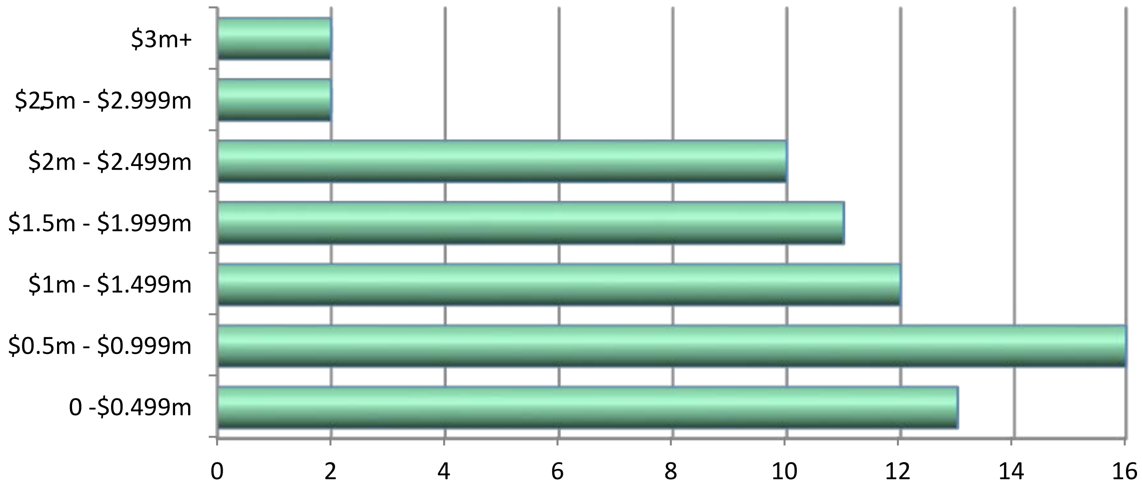

Figure 2: CEO bonus distribution for S&P/ASX100 (conditional on a bonus being paid)

The decline in bonuses in 2011 is also apparent from the table above. Unlike 2010, when the most common bonus outcome was a bonus of between $1 million and $1.5 million accounting for 25 percent of all cash bonus payments, in 2011 the most common outcome was a cash bonus of between $0.5 and $1 million, accounting for a quarter of all CEO bonuses in the sample. Bonuses of $2 million or more however rose slightly in 2011 as a proportion of the sample, from 19 percent in 2010 to 22 percent in 2011 although in 2010 there were four bonuses of more than $3.5 million and in 2011 none.

4.5 Annual bonus – ASX 101-200

	Median	Average	Minimum	Maximum
Annual bonus paid	$376,915	$421,576	$26,250	$1,500,000
Annual bonus – excluding exploration entities	$400,000	$458,461	$51,000	$1,500,000
Annual bonus – exploration entities	$200,781	$245,054	$26,250	$572,113

Table 4.5: Annual bonus received, S&P/ASX 101-200 CEOs

The gulf in cash pay for Top 100 CEOs and those running the ASX101-200 is again apparent from the bonus outcomes for ASX101-200 CEOs. The median bonus of $376,915 for this group is just over a third of the median for the Top 100 as is the average of $421,576. Of the 57 CEOs in the ASX101-200 sample who received a bonus, only two - Seven's Peter Gammell and Adelaide Brighton's Mark Chellew – received bonuses of more than $1 million.

Part of the reason for the lower bonuses across the ASX101-200 sample is the prevalence of exploration entities. Across these 18 exploration entities, a third received no bonus and of the 12 CEOs who received a bonus only three received a bonus of more than $500,000. Of the 57 CEOs of established entities, 12 received no bonus and the average and median bonus were still less than $460,000. Bonus deferral was also less common among the ASX101-200 with only nine of the 75 having a deferred component of their bonus in 2011. Bonuses accrued for the ASX101-200 were therefore also substantially lower than for the Top 100, with an average accrued bonus of $474,394 (the largest accrued bonus was Gammell's $2.655 million) and the median $400,000. In comparison to the Top 100, CEOs of the ASX101-200 are also more likely to receive no bonus with 24 percent of the inaugural sample receiving no bonus compared with 12 percent for the Top 100.

4.6 Cash pay – Top 100

The cash pay measure in the ACSI CEO pay study is designed to strip out the 'noise' introduced by the valuation of equity incentives in remuneration disclosures, including changes to valuation methods over the life of the study. As it includes fixed pay, cash bonuses and accrual of entitlements it is also a useful proxy for the total pay in cash, insulated from ongoing company performance a CEO receives in a single year. When cash pay levels are very high, regardless of whether or not an executive receives a component of their pay in equity, the consequences of company performance deteriorating becomes less significant for senior executives as they have already received substantial cash rewards.

High levels of cash pay remain a feature of the Top 100 CEO sample. In 2011, as shown in Table 4.6, average cash pay for a Top 100 CEO remained above $3 million despite declining 8.9 percent from 2010. This decline was largely driven by the decline in annual bonuses noted above exacerbated by the departure of the two CEOs receiving the highest levels of cash pay in the 2010 longitudinal, Wal King and Frank Lowy.

	2011	2010	2006	2001	One year increase (decrease)	Five year p.a increase (decrease)	From 2001 p.a increase
Median	$2,945,000	$2,785,900	$2,492,718	$1,375,000	5.7	3.4	7.9
Average	$3,055,428	$3,354,770	$3,476,833	$1,814,371	(8.9)	(2.6)	5.3
Highest	$6,734,522	$15,964,902	$16,504,181	$7,823,072			
Lowest	$335,388	$132,699	$415,862	$166,457			

Table 4.6: Cash pay, S&P/ASX100 CEOs[30]

The impact of these outliers on the decline in average cash pay is however apparent from the rise in median cash pay, from $2.786 million in 2010 to $2.945 million in 2011. Average cash pay, at $3.055 million, was at the lowest level since 2005 (the last year average cash pay was less than $3 million) while the median for 2011 was the highest recorded in the ACSI longitudinal, surpassing the level of $2.9 million achieved in 2007 and 2008. This indicates that while the number of CEOs receiving pay in cash that is much higher than that of other CEOs has diminished due to retirements, an end to record bonuses for finance firms such as Macquarie and the impact of increased bonus deferral, total cash pay for all CEOs is rising. In 2001, median cash pay was more than $430,000 below the average while in 2011 the gap had narrowed to less than $110,000. The steady rise in the median over the past decade, and over the five years since 2006 has been driven by increases in fixed pay as cash bonuses have risen minimally over this period (and have become marginally more likely not to be paid).

[30] Full cash pay data over the history of the longitudinal study is disclosed in Appendix 1. The 2001 figures exclude News Corporation; data inclusive of News is available in the Appendix. The cash pay data for 2006 (and every year up to and including 2010) has been restated following a change to how UGL discloses bonuses; see Appendix 1 for more information.

The CEO receiving the highest cash pay in 2011 was CBA's Ralph Norris at $6.819 million (well below the near $16 million received by Westfield's Lowy in 2010) while Fortescue's Andrew Forrest again had the lowest cash pay at $335,388. In 2011, only three CEOs received cash pay of more than $6 million with the others being Coca-Cola Amatil's Terry Davis and Newcrest's Ian Smith while in 2010 four CEOs received cash pay in excess of $6 million (and two well in excess of $10 million). A total of four CEOs – Forrest, Primary's Ed Bateman, Lynas Corporation's Nick Curtis and ConnectEast's Dennis Cliché received cash pay of less than $1 million.

Over a quarter of the sample – 27 percent – received cash pay of between $2 million and $3 million (see Figure 3 below) and another quarter received cash pay of between $3 million and $4 million. In 2010 68 percent of the sample received cash pay of between $1 million and $4 million and in 2011 73 percent.

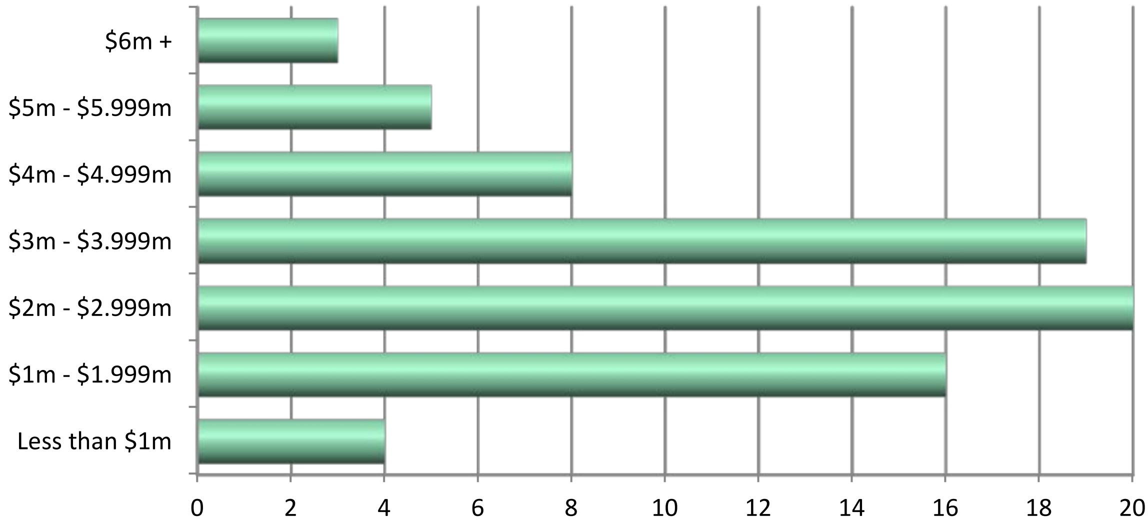

Figure 3: CEO cash pay distribution for S&P/ASX100

4.7 Cash pay – ASX 101-200

	Median	Average	Minimum	Maximum
Cash pay	$1,157,500	$1,245,622	$365,053	$4,507,279
Cash pay – excluding exploration entities	$1,259,882	$1,384,398	$417,081	$4,507,279
Cash pay – exploration entities	$674,619	$806,164	$417,081	$1,504,806

Table 4.7: Cash pay, S&P/ASX 101-200 CEOs

Cash pay levels for the ASX101-200 were substantially lower than for the Top 100, driven by lower fixed pay and bonuses relative to large company CEOs. In 2011 the median cash pay for a Top 100 CEO was close to 2.5 times the size of the median cash pay of a ASX101-200 CEO of $1.158 million while the average Top 100 CEO's cash pay was also approximately 2.5 times the size of the average for the ASX101-200 of $1.246 million.

Lower absolute levels of cash pay for the ASX101-200 cohort should not obscure that on a relative basis cash pay for the ASX101-200 is often significant in the context of the company. For example, Adelaide Brighton's CEO, Mark Chellew, received cash pay in 2011 of $2.92 million, or close to 2 percent of 2011 profit and cashflow. Another ASX101-200 CEO, Peter Crowley of GWA, received cash pay of $2.271 million or 2.6 percent of operating cashflow, while the cash pay of the combined CEOs of Charter Hall was 4.5 percent of operating cashflow.

The highest cash pay for a ASX101-200 CEO was $4.507 million for Seven's Peter Gammell while the lowest was for Regis Resources' Mark Clark. Of the 75 ASX101-200 CEOs, nine received cash pay of more than $2 million (Gammell was the only CEO to receive more than $3 million in cash) and another 25 more than $1 million. A majority of the sample received cash pay of less than $1 million in 2011 while among the 18 exploration entity CEOs in the sample only four received cash pay of more than $1 million: At Aston Resources, Aurora Oil & Gas, Extract Resources and Eastern Star Gas.

4.8 Total statutory pay – Top 100

	2011	2010	2006	2001	One year increase (decrease)	Five year p.a increase	From 2001 p.a increase
Median	$4,517,815	$4,388,073	$3,274,675	$1,843,987	3.0	6.6	9.4
Average	$4,724,758	$4,991,319	$4,561,393	$2,450,513	(5.3)	0.7	6.8
Highest	$11,803,992	$16,157,746	$21,210,349	$11,682,638			
Lowest	$426,542	$132,699	$415,862	$166,457			

Table 4.8: Total statutory pay, S&P/ASX100 CEOs[31]

There has been considerable debate over the accuracy of statutory pay disclosures in recent years. As ACSI has previously observed this has been led by the management of listed companies and their representatives as reported total pay has often exceeded actual pay received in the wake of declining share prices since 2007. In past ACSI studies, and in the 2010 and 2011 studies, ACSI has noted that reported executive pay frequently also understates total pay received and this is apparent from the 40 examples in this report (see section 3) reviewing reported and realised pay for the highest and lowest paid CEOs across the S&P/ASX200.

In 2011 average statutory pay declined by 5.3 percent to $4.725 million, the lowest level since 2006 while the median increased 3 percent to $4.518 million. As with cash pay, this was the highest median statutory pay in the history of the ACSI CEO pay study and again is indicative of rising pay levels for most CEOs and fewer CEOs receiving very high levels of pay due to retirements and changed market conditions. The steady rise in pay across the Top 100 has been despite generally subdued market and economic conditions for the past four years and has come off levels achieved prior to the Global Financial Crisis. Median total pay is now 8.4 percent above the 2007 level of $4.169 million which was itself 27.3 percent above the 2006 median.

[31] Statutory pay data over the history of the longitudinal study is disclosed in Appendix 1. The 2001 figures exclude News Corporation; data inclusive of News is available in the Appendix. The cash pay data for 2006 (and every year up to and including 2010) has been restated following a change to how UGL discloses bonuses; see Appendix 1 for more information.

The decline in pay outliers was apparent from the highest statutory pay for a Top 100 CEO in 2011 of $11.804 million (BHP's Marius Kloppers) being the lowest since 2001 (excluding News Corporation). The lowest paid CEO in the Top 100 on a statutory pay basis was again Fortescue's Andrew Forrest at $426,542. The highest paid CEO from 2010, CBA's Ralph Norris was ranked sixth in 2011 with total pay of $8.638 million (as noted above, the realised pay for Kloppers and Norris was substantially higher in 2011 than statutory pay).

In 2011, just three CEOs (4 percent of the sample) had total pay of less than $1 million (down from five or 6 percent of the 2010 sample), including Myer's Bernie Brookes whose 2011 pay included a negative value of $947,000 as Myer reversed previously expensed option grants on the basis they are unlikely to vest. Only 9 percent of the 2011 sample had pay below $2 million (2010: 14 percent) while 41 percent had reported pay of $5 million or more, in line with the 43 percent of the 2010 sample with $5 million or more. Just under half of the 2011 sample – 37 CEOs – had reported pay between $2 million and $5 million, up from 44 percent in 2010.

4.9 Total statutory pay – ASX 101-200

	Median	Average	Minimum	Maximum
Total statutory pay	$1,518,654	$1,700,321	$365,053	$4,924,362
Total statutory pay – excluding exploration entities	$1,652,333	$1,739,607	$417,081	$4,924,362
Total statutory pay – exploration entities	$1,122,729	$1,575,914	$365,053	$4,431,928

Table 4.9: Cash pay, S&P/ASX 101-200 CEOs

The gap between exploration and non-exploration entities in the ASX101-200 CEO sample diminishes substantially in terms of total pay. The average statutory pay for the 18 exploration entity CEOs was $1.576 million in 2011, compared to $1.74 million for non-exploration entity CEOs (although the gulf between the medians of the two groups was more substantial). This is testament to the way pay in these exploration entities is structured with CEOs often receiving very large allocations of equity – typically options – vesting based on continuous service and achievement of share price or milestone targets or in some cases vesting immediately on allocation. The accounting – and realised value - of these options can be substantial as is apparent from the above table and the realised pay data for the highest and lowest paid ASX101-200 CEOs above.

These option allocations mean that the pay of exploration entity CEOs is much more sensitive to share price fluctuations relative to the pay arrangements of Top 100 (and non-exploration entity ASX101-200 CEOs) where large cash payments effectively insulate executives from the shareholder experience. Volatile share prices are however a feature of exploration entities and so option allocations with short vesting timeframes and minimal performance hurdles also allow substantial rewards for share price performance that is not sustained for any length of time. This will be examined in the pay for performance case studies in section 7.

Total reported pay for ASX101-200 CEOs on both an average and median basis is, as with every other component of CEO pay, substantially lower than that for Top 100 CEOs. This indicates the well-known importance of company size on CEO pay outcomes and pay levels.

5. Pay and incumbency: S&P/ASX100

	2010		2011		Average	Median
	Average	Median	Average	Median	% increase (decrease)	% increase (decrease)
Fixed pay	$1,879,383	$1,835,463	$2,058,216	$1,988,953	9.5	8.4
Annual bonus	$1,485,541	$1,260,000	$1,349,955	$1,104,000	(9.2)	(12.4)
Cash pay	$3,245,123	$2,896,845	$3,260,708	$2,999,298	0.5	3.5
Statutory total pay	$5,097,523	$4,845,812	$5,035,306	$4,727,655	(1.2)	(2.4)
Bonus accrued	$1,961,239	$1,775,000	$1,783,575	$1,575,228	(9.1)	(11.3)

Table 5.1: Incumbent CEO Pay 2010 to 2011, S&P/ASX100

The incumbent CEO pay measure was added to the ACSI pay study in 2007 and was designed to strip out the influence of changes to the Top 100 CEO pay sample on pay movements. Under the methodology for the study, the sample consists of CEOs of entities in the S&P/ASX100 as at 30 June and so is influenced by new appointments – which may have remuneration levels much higher or much lower than their predecessors – and changes to the S&P/ASX100 – for example, the demise of Babcock & Brown and its subsequent exclusion from the 2008 sample had a meaningful impact on overall pay numbers given the size of CEO Phil Green's remuneration.

In 2011 there were 62 CEOs who were in office for both the 2010 and 2011 financial years and whose entities were members of the S&P/ASX100 on 30 June 2010 and 30 June 2011. The 2011 incumbent group, aside from being the largest group of incumbents in the five years the ACSI study has included this data, is also the first group in the history of the incumbency sample not to include Leighton Holdings' Wal King and Westfield's Frank Lowy.

As in prior years, in 2011 the incumbent CEOs reported higher average and median fixed pay, annual bonuses, cash pay, statutory total pay and accrued bonuses than the whole sample of 75 CEOs. Unlike the whole sample, the incumbent CEOs enjoyed substantial increases in median and average fixed pay (average fixed pay among this group rose more than 9.5 percent compared with less than 1 percent for the whole sample) although the median bonus for this group declined much more rapidly than the median bonus for the whole sample (which fell 2.1 percent). Of the nine CEOs in the entire sample who received no cash bonus in 2011, seven were part of the incumbent sample and the only CEOs who received no cash bonus in both 2010 and 2011 were Primary's Ed Bateman and Seek's co-CEOs (who do not participate in an annual bonus scheme) and Qantas' Joyce, whose accrued bonus declined from $2.88 million in 2010 to $1.78 million in 2011. The decline in average and median bonuses for the incumbent group reinforces the fact that there was a genuine decline in bonus outcomes across the Top 100 CEO sample group in 2011 (rather than the change being due to changes in the sample) although the impact of these declines on incumbent CEO cash pay was muted by substantial fixed pay increases.

6. Termination payments in 2011: S&P/ASX200

This section covers payments on termination to CEOs of S&P/ASX200 entities that departed during the 2011 financial year (or at the end of the financial year in the case of Newcrest and Bank of Queensland). For the purposes of the study termination payments include payments in lieu of notice, contractual entitlements on termination, any ex gratia payments, bonuses paid for part-year worked and the value of any equity incentives allowed to vest early as a result of departure although shares released from deferred bonus arrangements are excluded. It does not include pension or superannuation benefits. Bonuses paid for a part year worked are included as termination payments because very few employees below senior executive level are entitled to a bonus if they are not employed at year end.

6.1 Termination payments – Top 100

In the 2011 financial year 12 CEOs of Top 100 companies received termination payments. Among the 'non-standard' termination payments in the 2011 sample were payments in lieu of notice and the annual bonus paid to CSR's interim CEO (and now chairperson) Jeremy Sutcliffe who oversaw the company's sale of its sugar businesses and worked only nine months of a potential 12 due to the timing of the sale of the sugar operations. It also includes the termination payment and bonus of in aggregate $5.475 million for outgoing Tabcorp CEO Elmer Funke Kupper, whose position became redundant as a result of the group's demerger and whose bonus reflected the fact he worked almost all of the 2011 financial year.

The largest termination payment was received by Leighton Holding's Wal King, who received $10.9 million in restraint and post-employment consulting payments. The former executive chairperson of Westfield, Frank Lowy, who received a bonus of $2.781 million for the five months of the 2011 year he was an executive, was also included (Lowy's previously accrued lump sum retirement benefit of $2.2 million was not included in the sample). The payments to King distorted the overall figure and if he is excluded the average termination payment fell to $2.193 million. This was still substantially above the 2010 average but below the figure for 2009.

	2008	2009	2010	2011
Aggregate	$83,028,043[32]	$34,563,870	$5,701,176	$35,018,308
Number of payments	13	13	5	12
Average	$6,386,773	$2,658,759	$1,140,235	$2,918,192
Median	$3,504,000	$2,202,408	$1,260,000	$2,000,000
Minimum	$793,333	$168,000	$513,079	$566,667
Maximum	$18,309,786[33]	$6,386,465	$1,681,897	$10,900,000

Table 6.1: CEO termination payments in the S&P/ASX100 2008 to 2011

[32] Figures disclosed in currencies other than AUD were converted into AUD using the exchange rate on the disclosed date of departure.
[33] 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.

6.2 Termination payments – ASX 101-200

The termination payment sample for the ASX101-200 in 2011 includes 11 payments (at NRW Holdings the outgoing CEO, Jeffrey McGlinn, received no payments other than accrued statutory entitlements and so is not included in the sample). The largest payment was received by the former CEO of Virgin, Brett Godfrey (who despite being replaced as CEO in 2010 remained an executive director until July 2010), while the smallest payment was $270,710 at Medusa Mining which was a bonus for 11 months of the year worked for Geoffrey Davis, who retired as CEO and became non-executive chairperson three weeks prior to balance date. Of the 11 termination payments to departing ASX101-200 CEOs in 2011 six were in excess of $1 million and two were in excess of $3 million with the other beneficiary of payout above $3 million being Ten's former executive chairperson, Nick Falloon.[34]

	2011
Aggregate	$14,945,926
Number of payments	11
Average	$1,358,721
Median	$1,025,000
Minimum	$270,710
Maximum	$3,630,000

Table 6.2: Termination payments – ASX 101 - 200

[34] The $3.63 million paid to Godfrey included a bonus for part year worked of $45,000, a bonus of $1.8 million disclosed in 2010 but paid in 2011 based on various hurdles including the handover to a new CEO and a termination payment of $1.178 million. It also includes $607,000 in fees for acting as an advisor to Virgin until December 2011. See pp. 56-57, 59 of the 2011 Virgin annual report.

7. Pay for performance case studies

7.1 Pay for performance methodology

In the following pages the pay for the five highest and five lowest paid of the S&P/ASX100 and S&P/ASX 101-200 CEOs 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 entity's security price over several years. The prices used are taken at the relevant reporting date. If an entity has a 30 June reporting date, the prices shown are as at 30 June 2011; if it has a 31 March balance date then the price relates to 31 March 2011.

ROA represents the ratio of net profit after tax to the average of an entity's total assets on hand at the beginning and end of the performance period.

ROE is determined by dividing net profit after tax by total securityholder equity averaged over the beginning and the end of the reporting period.

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 and is calculated over one year and three years to the entity's 2011 balance date. The three-year TSR is the total return a securityholder would have enjoyed for the period and not an average compound annual return. The TSR figures are not adjusted for the impact of capital raisings which should have an influence on security prices over time.

As in past years these case studies are intended to provide examples of the pay and performance relationship between performance and CEO remuneration in large listed Australian entities. These are case studies and not comprehensive statistical studies.

7.2 The problems with measuring performance and pay

Executive pay will not perfectly mirror returns to securityholders and pay outcomes will not reflect good performance across all of the measures used to assess performance. This is because there may be a lag between the achievement of bonus goals – which may relate to organisational restructuring or substantial capital investment – and improved performance. It should however be noted that in many cases bonuses are paid for the achievement of corporate goals such as acquisitions or restructures that may not over time improve company performance.

For exploration companies, a prominent group among the lowest paid CEOs, measures of corporate performance linked to profitability are not useful. This is because these entities are usually seeking new energy or resource assets to develop or are in the process of development and have no recurring revenue. For these companies, security price performance is the best indicator of performance. These entities' exposure to market conditions due to their need for funds and commodity prices which influence the commercial viability of their assets makes their security prices volatile.

7.3 Five highest paid S&P/ASX100 CEO case studies

7.3.1 CEO 1: BHP Billiton - Marius Kloppers' Remuneration & Performance Analysis

	2008	2009	2010	2011
Share price	$43.70	$34.72	$37.65	$43.80
ROA	22.4%	7.6%	15.2%	24.7%
ROE	45.3%	15%	28.8%	44.9%
Base pay	N/A	$3,868,883	$3,313,572	$3,090,926
Bonus	N/A	$2,357,114	$2,643,284	$2,385,779
Equity value	N/A	$7,921,084	$6,892,190	$6,327,287
Total Pay	N/A	$14,147,081	$12,849,046	$11,803,992

One year TSR[35]	**18.8%**
One year movement in total pay	-8.1%
Three year TSR	**7.1%**
Movement in total pay 2008 - 2011	N/A

The impact of commodity price movements on BHP's performance is apparent from the performance of BHP over the period 2008 to 2011. After a decline in profit in 2009 and 2010 due to commodity price falls and asset writedowns in 2009, ROE and ROA increased substantially in 2011 and returned to the levels of 2008, the last year prior to the Global Financial Crisis. The company's TSR over one year illustrates the rebound in prices while over three years, where TSR is under 10 percent, it demonstrates the return to buoyant commodity prices before 2009.

The statutory pay of Marius Kloppers has fallen for the past two years due to the impact of translating is pay into Australian dollars for the purposes of the ACSI study. Kloppers' pay is disclosed in US dollars and has risen in 2010 and 2011, increasing from US$10.4 million in 2009 to US$11.634 million. As noted above, Kloppers' realised pay in both 2010 and 2011 has been substantially above his statutory disclosed pay as 225,000 BHP shares vested in each of 2010 and 2011 based on BHP's TSR performance over five year periods relative to peer mining companies.

[35] TSR is calculated using the share price and dividends paid for BHP Billiton Limited, the Australian company within the BHP Billiton dual listed company structure.

7.3.2 CEO 2: ANZ - Mike Smith's Remuneration & Performance Analysis

	2007	2008	2009	2010	2011
Share price	$29.70	$18.75	$24.39	$23.68	$19.52
ROA	1.1%	0.8%	0.6%	0.9%	1.0%
ROE	20%	13.7%	10%	13.6%	14.9%
Base pay	N/A	$3,612,355	$3,050,663	$3,051,168	$3,310,319
Bonus	N/A	$2,400,000	$2,400,000	$2,500,000	$1,750,000
Equity value	N/A	$6,951,125	$5,484,940	$5,304,909	$4,978,577
Total Pay	N/A	$12,963,480	$10,935,603	$10,856,077	$10,038,896

One year TSR	**-11.7%**
One year movement in total pay	-7.5%
Three year TSR	**23.6%**
Movement in total pay 2008 - 2011	-22.6%

The 2011 financial year saw ANZ's ROA continue its improvement following the low of 0.6 percent it reached in 2009. The decline in ROE from 20 percent in 2007 reflects two major changes: The subdued environment for even Australian banks over the four years to 2011 and the higher levels of equity carried by all major banks in Australia in response to the GFC and subsequent regulatory changes.

As noted in last year's ACSI report the decline in Smith's total pay from 2008 (his first full year as ANZ CEO) to 2011 is largely due to the vesting of the 330,000 ANZ shares he received as a 'sign-on' incentive. The consistency of cash pay outcomes for Smith – and other major bank CEOs – is apparent from the fact his cash pay has been between $5 million and $6 million in each of the four years he has served as ANZ's CEO to 2011 (his cash pay in 2008 was slightly above $6 million but included various relocation payments).

7.3.3 CEO 3: Westpac - Gail Kelly's Remuneration & Performance Analysis

	2008	2009	2010	2011
Security price	$21.48	$26.25	$23.24	$20.34
ROA	0.9%	0.7%	1.1%	1.1%
ROE	22.9%	13.1%	17.4%	17.5%
Base pay	N/A	$2,701,261	$2,700,750	$2,997,753
Bonus	N/A	$2,625,000	$2,835,000	$2,376,000
Equity value	N/A	$5,298,651	$4,051,246	$4,491,063
Total Pay	N/A	$10,624,912	$9,586,996	$9,864,816

One year TSR	**-6.0%**
One year movement in total pay	6.9%
Three year TSR	**13.5%**
Movement in total pay 2008 - 2011	N/A

The performance of Westpac over the period since Gail Kelly became CEO early in 2008 has been dominated by two factors: The decline in returns, especially ROE, for all banks as a result of the GFC (although Westpac's ROA is actually higher in 2010 and 2011 than in 2008) and the acquisition of St George in the 2009 financial year. This acquisition, which along with the GFC helped reduce ROA and ROE in 2009, has however had much less impact on Westpac's overall returns than many other large scale acquisitions in recent years such as Rio Tinto's acquisition of Alcan in 2007 or Primary's acquisition of Symbion Health in 2008.

The pay outcomes for Gail Kelly are similar to those for ANZ's Mike Smith. Her total reported pay has declined since 2009 as the 278,000 shares she received as a sign-on incentive after resigning from St George to become Westpac CEO vested in full by December 2009. Kelly's cash pay has consistently been between $5.3 million and $5.6 million in each of the three full years she has served as CEO to 2011.

7.3.4 CEO 4: Macquarie Group - Nicholas Moore's Remuneration & Performance Analysis

	2009	2010	2011
Security price	$27.05	$47.25	$36.60
ROA	0.6%	0.7%	0.6%
ROE	10.0%	10.6%	8.4%
Base pay	N/A	$518,820	$746,499
Bonus	N/A	$4,681,736	$2,700,654
Equity value	N/A	$4,357,033	$5,246,251
Total Pay	N/A	$9,557,589	$8,693,404

One year TSR	**-18.6%**
One year movement in total pay	-9.0%

The current CEO of Macquarie, Nicholas Moore, became CEO in May 2009 after previously being a senior executive of the group. His pay as CEO has declined substantially relative to his 2008 pay; this was his last full year prior to becoming CEO when his total pay was $26.752 million. This reflects the substantial decline in Macquarie's profitability, especially its ROE as financial market conditions worsened. A feature of Macquarie relative to other large companies in the Top 100 peer group is the low levels of fixed pay received by senior executives although their potential annual incentive award – much of which is now deferred – is significantly larger than that for executives of other companies.

As the primary driver of a bonus being paid is profitability (annual bonuses are described as profit share allocations), so long as Macquarie is profitable staff bonuses will continue to be substantial although so long as ROE remains below the group's cost of capital the pay levels seen pre-GFC will not return. This is because the Macquarie annual bonus pool provides much greater benefits to staff when ROE exceeds the group's cost of capital and this has not occurred since 2008.

7.3.5 CEO 5: NAB - Cameron Clyne's Remuneration & Performance Analysis

	2009	2010	2011
Security price	$30.76	$25.34	$22.37
ROA	0.4%	0.6%	0.7%
ROE	7.3%	11.0%	12.9%
Base pay	N/A	$2,691,571	$2,835,502
Bonus	N/A	$1,916,317	$2,025,000
Equity value	N/A	$3,117,660	$3,815,475
Total Pay	N/A	$7,725,628	$8.675,977

One year TSR	**-5.3%**
One year movement in total pay	-9.0%

The 2011 year was the first time NAB's Cameron Clyne, who became CEO in January 2009, has been ranked in the five highest paid Top 100 CEOs. As noted elsewhere in this study his realised pay is substantially below his statutory pay for 2011 partly due to the fact that the vesting periods for the large equity allocations he has received since becoming CEO have not yet expired. In terms of annual cash pay his 2010 and 2011 totals have been similar at between $4.5 million and $5 million making him in cash pay terms the lowest paid of the big four bank CEOs.

In the two full years he has been CEO, NAB's performance has improved sharply from the poor year of 2009 when ROA and ROE were the lowest of any of the big four Australian banks. NAB's share price has however declined over the two years to 30 September 2009 although over the three years to 30 September 2011 the decline in share price performance has been a modest 7.8 percent.

7.4 Five lowest paid S&P/ASX100 CEO case studies

7.4.1 CEO 1: Fortescue - Andrew Forrest's Remuneration & Performance Analysis

	2007	2008	2009	2010	2011
Share price[36]	$3.38	$11.90	$3.79	$4.12	$6.35
ROA	N/A	N/A	13.48%	12.2%	14.7%
ROE	N/A	N/A	129.02%	49.9%	52.3%
Base pay	$111,100	$198,648	$223,877	$119,057	$277,638
Bonus	$110,000	$0	$15,418	$13,642	$57,750
Equity value	$0	$0	$0	$0	$91,154
Total Pay	$221,100	$198,648	$239,295	$132,699[37]	$426,542

One year TSR	**54.9%**
One year movement in total pay	221.4%
Three year TSR	**-46.4%**
Movement in total pay 2008 - 2011	114.7%

In 2011, the last full year for Andrew Forrest as CEO of Fortescue, the company he founded, share price and profit performance were strong and the company paid its first dividend. Operating cash flow also more than doubled in 2011 relative to 2010 and while Forrest's pay as CEO rose sharply in 2011 it remained comfortably below that of other CEOs in the sample.

As in prior years the emphasis on debt financing for Fortescue relative to other non-banking companies is apparent from the company's high ROE relative to ROA. These high debt levels together with movements in commodity prices account for the volatility in the Fortescue share price over the five years to 2011.

[36] The 2007 share price has been adjusted to reflect the 10 for one share split of Fortescue shares in December 2007.
[37] The 2011 annual report for Fortescue discloses Forrest's total pay in 2010 as being $282,060 while the 2010 annual report disclosed his pay as being US$116,998 which was converted into AUD in the 2010 ACSI study on the basis of the average USD:AUD exchange rate for the 12 months to 30 June 2010. The discrepancy arose because of an annual bonus including a share based component disclosed in 2011 but not in 2010. No explanation of this discrepancy is provided. See p. 55 of the 2011 annual report and p. 38 of the 2010 annual report.

7.4.2 CEO 2: Myer Holdings - Bernie Brooke’s Remuneration & Performance Analysis

	2010	2011
Security price	$3.45	$2.31
ROA	N/A	8.1%
ROE	N/A	18.7%
Base pay	$2,045,387	$1,860,829
Bonus	$835,177	$0
Equity value	$2,568,922	($947,404)
Total Pay	$5,449,486	$913,425

One year TSR	**-26.5%**
One year movement in total pay	-83.2%

CEO pay and company performance at Myer in 2011, its first full year as a listed company after its prior private equity owners floated the company in November 2009, reflect a difficult environment for the department store. Meaningful ROE and ROA comparisons are difficult because of the distorting impact of the float on the 2010 profit statement and given Myer was not a listed company at the end of the 2009 financial year. The substantial decline in the group’s share price however indicates a bad year which was also reflected in a substantial decline in the CEO’s pay. This decline is not as dramatic as it appears as Brookes’ 2011 pay includes the reversal of previously accrued expenses relating to equity grants that Myer considers unlikely to vest. Even on a cash pay basis, Brookes’ pay declined 35.4 percent as he received no cash bonus in 2011. The decline in his fixed pay relates to a decline in the value of non-salary benefits received under his employment agreement with Myer.

7.4.3 CEO 3: Primary Health Care - Ed Bateman's Remuneration & Performance Analysis

	2007	2008	2009	2010	2011
Share price	$12.70	$5.20	$5.25	$3.56	$3.43
ROA	9.9%	0.2%	2.5%	3.5%	2.1%
ROE	14.2%	0.6%	5.6%	5.8%	3.2%
Base pay	$376,793	$400,000	$400,000	$950,000	$950,000
Bonus	$0	$0	$0	$0	$0
Equity value	$0	$0	$0	$0	$0
Total Pay	$376,793	$400,000	$400,000	$950,000	$950,000

One year TSR	**0%**
One year movement in total pay	0%
Three year TSR	**-25%**
Movement in total pay 2008 - 2011	137.5%

Performance at Primary Health Care declined in 2011 relative to 2010 and remains well below the levels achieved in 2007, the last year prior to the company's debt-funded acquisition of Symbion Health in 2008. TSR over the three years to June 2011 was poor although in the 2011 year dividends cancelled out a small decline in the share price. Following the substantial increase in his fixed pay in 2010, Bateman's fixed pay was unchanged in 2011 and he continued to receive no incentive pay although as at the end of the 2011 financial year he held just under 8 percent of Primary's shares.

7.4.4 CEO 4: Harvey Norman - Gerald Harvey's Remuneration & Performance Analysis

	2007	2008	2009	2010	2011
Share price	$5.29	$3.09	$3.30	$3.31	$2.49
ROA	13.1%	10.9%	6.1%	6.3%	6.5%
ROE	26.7%	20%	11%	11.2%	11.7%
Base pay	$500,000	$650,000	$761,000	$750,000	$750,000
Bonus	$75,000	$350,000	$0	$400,000	$400,000
Equity value	$321,879	$162,067	$281,807	($411,928)	$0
Total Pay	$896,879	$1,162,067	$1,042,807	$738,072	$1,150,000

One year TSR	**-20.8%**
One year movement in total pay	55.8%
Three year TSR	**-7.1%**
Movement in total pay 2008 - 2011	-1.0%

A marginal improvement in Harvey Norman's ROE and ROA in 2011 was not reflected in the group's share price decline in 2011 or in the cash pay of executive chairperson (and major shareholder) Gerry Harvey. In 2011 his cash pay was unchanged from 2010 and his reported pay rose although this was due to his 2010 pay being reduced by the reversal of previously accrued equity expenses when incentives did not vest. Over the three years to 2011 the performance of Harvey Norman in terms of TSR, ROE and ROA has been poor while the cash pay of the executive chairperson has risen 15 percent, although it remains low relative to other Top 100 company CEOs.

7.4.5 CEO 5: ConnectEast - Dennis Cliché's Remuneration & Performance Analysis

	2010	2011
Security price	$0.38	$0.46
ROA	N/A	N/A
ROE	N/A	N/A
Base pay	N/A	$625,000
Bonus	N/A	$311,850
LTI value	N/A	$353,483
Total Pay	N/A	$1,290,333

One year TSR	**23.7%**
One year movement in total pay	N/A

The last CEO of ConnectEast prior to its acquisition in November 2011, Dennis Cliché, became CEO in November 2009. In 2011 the group reported a statutory loss, as it did in 2010, although it did report positive operating cashflow in 2011 of $58.5 million, up from a cash outflow of $8.1 million in 2010. This followed a substantial debt reduction in 2010 using the proceeds of a capital raising.

In his only year as CEO, Cliché's cash and total pay was much lower than that of Chris Lynch, CEO of Transurban Group which like ConnectEast owns and operates toll roads – although ConnectEast was substantially smaller than Transurban and held only one tolling concession. In 2011 Lynch received statutory pay of $6.75 million and cash pay of $4.582 million, approximately five times higher than the pay received by Cliché.

7.5 Five highest paid ASX 101-200 CEO case studies

7.5.1 CEO 1: Seven Group - Peter Gammell's Remuneration & Performance Analysis

	2010	2011
Security price	$5.74	$9.63
ROA	N/A	1.5%
ROE	N/A	2.7%
Base pay	N/A	$3,007,279
Bonus	N/A	$1,500,000
Equity value	N/A	$417,083
Total Pay	N/A	$4,924,362

One year TSR	**74.0%**
One year movement in total pay	N/A

The 2011 financial year was the first full year as a listed company for Seven Group, which was created out of the April 2010 merger of Seven Network, in which Kerry Stokes was the largest shareholder, with WesTrac, an unlisted group controlled by Stokes. As a result of the merger, the CEO of Stokes' private company, Australian Capital Equity, Peter Gammell, became CEO of Seven Group in April 2010 and Stokes as at the end of 2011 held 68 percent of Seven.

Accounting measures of profitability are less meaningful for Seven Group because of the nature of its assets. In addition to owning WesTrac outright, Seven has a portfolio of investments in a variety of companies including Seven West Media (itself created through a merger between Seven Media Group, formerly partially owned by Seven Group and West Australian Newspapers, a company in which Seven Group was the largest shareholder). This means its profits are volatile especially as Seven impaired its investments in listed entities Seven West and Consolidated Media in 2011.

In his first year as Seven's CEO, Gammell received the highest pay of any ASX101-200 CEO with his fixed pay of $3.007 million among the highest fixed pay of any CEO in the entire S&P/ASX200.

7.5.2 CEO 2: Aston Resources - Todd Hannigan's Remuneration & Performance Analysis

	2011
Security price	$8.76
ROA	N/A
ROE	N/A
Base pay	$964,806
Bonus	$540,000
Equity value	$2.927,122
Total Pay	$4,924,362

Aston Resources, a developing resource company with no recurring revenue (an exploration entity), listed on ASX in August 2010 and was acquired by Whitehaven Coal in May 2012. Its CEO for the period to 30 June 2011 was Todd Hannigan, who left Aston in November 2011. The high statutory pay for Hannigan reflected a substantial allocation of options received on listing and vesting over two years. His cash pay was however substantial for an ASX101-200 CEO in 2011, and especially for the CEO of an exploration entity, at more than $1.5 million - none of the 18 exploration entity CEOs in the ASX101-200 sample received higher cash pay than Hannigan.

7.5.3 CEO 3: Adelaide **Brighton -** Mark Chellew's Remuneration & Performance Analysis

	2007	2008	2009	2010	2011
Share price	$3.48	$2.10	$2.75	$3.30	$2.89
ROA	9.5%	9.3%	9.1%	11.3%	10.6%
ROE	17.1%	17.7%	15.5%	16.6%	15.7%
Base pay	$1,125,010	$1,300,000	$1,352,000	$1,500,000	$1,500,000
Bonus	$990,000	$764,400	$1,346,592	$1,482,000	$1,419,840
Equity value	$507,997	$656,467	$265,455	$445,275	$633,291
Total Pay	$2,623,007	$2,720,867	$2,964,047	$3,427,275	$3,553,131

One year TSR	**-6.7%**
One year movement in total pay	3.7%
Three year TSR	**61.9%**
Movement in total pay 2008 - 2011	30.6%

Over the five years to December 2011, Adelaide Brighton's performance has been steady, with ROA improving substantially between 2009 and 2010 and ROE remaining above 15 percent. Strong TSR performance over the past three years partially reflects Adelaide Brighton's consistent performance and quick recovery from the share price lows of late 2008 and early 2009.

A substantial increase in at risk pay and fixed pay for CEO Mark Chellew has flowed from this strong performance. Chellew, who has been CEO of Adelaide Brighton since September 2001, has seen his fixed pay increase 33.3 percent from 2007 to 2011 while his bonus potential has increased by more than 50 percent from $990,000 to $1.44 million. His actual cash pay has risen from $2.115 million in 2007 to $2.92 million in 2011 while his statutory pay was 2.3 percent of profit in 2007 and 2.4 percent in 2011 indicating the growth in his pay has been proportional to profit.

7.5.4 CEO 4: Charter Hall - David Harrison & David Southon Remuneration & Performance Analysis

	2007	2008	2009	2010	2011
Security price[38]	$11.36	$4.22	$2.08	$2.40	$2.15
ROA[39]	7.5%	9.3%	-12.6%	0.9%	5.4%
ROE	11.7%	14.2%	-17.0%	1.1%	6.9%
Base pay	$900,000	$997,813	$1,498,953	$1,500,000	$2,094,770
Bonus	$0	$954,000	$0	$2,000,000	$525,000
Equity value	$308,957	$1,398,808	$97,950	$503,212	$824,774
Total Pay	$1,208,957	$3,350,621	$1,596,903	$4,003,212	$3,444,544

One year TSR	**-4.4%**
One year movement in total pay	-14.0%
Three year TSR	**-33.5%**
Movement in total pay 2008 - 2011	2.8%

Charter Hall is one of two entities in the S&P/ASX200 CEO sample for 2011 with joint CEOs, the other being Seek. The combined pay of the joint CEOs of Charter Hall, David Harrison and David Southon, is significant in the context of cashflow and distributions at Charter Hall and illustrates the substantial divide between returns to executives of property entities over the period 2007 to 2011 and returns to securityholders. The Charter Hall security price has declined more than 80 percent over the four years to 30 June 2011 as the group was forced to raise capital to reduce debt levels. In contrast from 2007 to 2011 the cash pay of the combined CEOs has risen from $900,000 to $2.62 million after reaching a peak in 2010 of $3.5 million. Performance measured by ROE and ROA in 2011 has yet to recover the levels achieved in 2007 although it should be noted that as a property entity, Charter Hall's profit includes unrealised gains and losses on its property portfolio much of which is marked to market each balance date.

[38] The security prices for 2007 to 2010 have been adjusted to reflect the one for four security consolidation in November 2010.
[39] ROE and ROA for 2011, 2010 and 2009 have been calculated using the restated balance sheet and profit information from the 2011 annual report.

7.5.5 CEO 5: Gryphon Minerals - Stephen Parsons' Remuneration & Performance Analysis

	2007	2008	2009	2010	2011
Share price	$0.40	$0.36	$0.28	$0.82	$1.81
ROA	N/A	N/A	N/A	N/A	N/A
ROE	N/A	N/A	N/A	N/A	N/A
Base pay	$237,052	$272,023	$299,371	$455,520	$571,386
Bonus	$0	$125,000	$200,000	$277,500	$275,000
Equity value	$102,444	$361,170	$289,347	$0	$2,405,991
Total Pay	$339,496	$758,193	$788,718	$733,020	$3,252,377

One year TSR	**120.7%**
One year movement in total pay	344.0%
Three year TSR	**402.8%**
Movement in total pay 2008 - 2011	329.0%

The pay and performance comparison for Gryphon Minerals over the past five years illustrates the difference between exploration entities and more established companies. Over this period the Gryphon Minerals share price has been very volatile while it has not recorded a profit, making ROA and ROE meaningless measures of performance. The share price increased rapidly from 2009 to 2011 and has since declined again – as at 30 June 2012 it was $0.68.

Reported pay over this period was relatively consistent between 2008 and 2010 before increasing substantially in 2011 as a result of option allocations at the 2010 AGM. In this case the reported pay figure for Stephen Parsons, the CEO of the company, understates his realised pay in 2011 as option exercises and disposals from allocations in prior years resulted in gains of $4.74 million. The consistency of reasonably large cash bonuses is also unusual for an exploration entity where cash conservation is usually a primary consideration – one-third of the 18 exploration entities in the ASX101-200 paid no cash bonus in 2011. Another five CEOs received bonuses of $100,000 or less.

7.6 Five lowest paid ASX 101-200 CEO case studies

7.6.1 CEO 1: Regis Resources - Mark Clark's Remuneration & Performance Analysis

	2009	2010	2011
Share price	$0.22	$0.90	$2.48
ROA	N/A	N/A	22.8%
ROE	N/A	N/A	32.7%
Base pay	N/A	$335,207	$365,053
Bonus	N/A	$0	$0
Equity value	N/A	$1,885,000	$0
Total Pay	N/A	$2,220,207	$365,053

One year TSR	120.7%
One year movement in total pay	-83.6%

The incumbent CEO of Regis Resources, Mark Clark became CEO after his predecessor was removed from the board by shareholders in May 2009. Since he became CEO, Regis Resources' performance has been very strong, with the company reporting a profit in 2011 after it began producing gold. Share price performance over the period 2009 to 2011 has also been very strong. The company is now part of the S&P/ASX100.

The pay of Clark in the 2010 and 2011 years has featured low levels of fixed pay, no cash bonuses and a single large option grant in 2010, all of which vested on allocation, which is reflected in the reported pay number for 2010. In March 2012 Clark disposed of his 5 million options and realised $15.918 million indicating again the potential for reported pay to substantially understate executive pay – although in this case, the benefit received by Clark reflects prolonged strong performance.

7.6.2 CEO 2: Platinum Asset Management - Kerr Neilson's Remuneration & Performance Analysis

	2007	2008	2009	2010	2011
Share price	$7.42	$3.11	$4.12	$4.68	$4.12
ROA	N/A	106.4%	61.0%	58.4%	57.3%
ROE	N/A	126.8%	67.9%	65.2%	63.6%
Base pay	N/A	$435,625	$425,216	$407,926	$417,081
Bonus	N/A	$0	$0	$0	$0
Equity value	N/A	$0	$0	$0	$0
Total Pay	N/A	$435,625	$425,216	$407,926	$417,081

One year TSR	**-6.8%**
One year movement in total pay	2.2%
Three year TSR	**53.1%**
Movement in total pay 2008 - 2011	-4.3%

Funds manager Platinum Asset Management listed in May 2007 and its CEO and founder, Kerr Neilson, retains a controlling shareholding in the firm. Since listing Neilson has received only fixed pay from Platinum although over the three years to 30 June 2011 the dividends on his shareholding were approximately $207 million. This indicates he receives the overwhelming majority of his returns from Platinum in his capacity as a shareholder and not an employee, providing strong alignment with other shareholders.

The share price of Platinum declined steadily from listing to 2008 and since that time, despite some improvement, has remained well below the levels achieved at the time of listing. The high levels of ROA and ROE are testament to the potential returns from funds management where capital requirements are minimal and despite the impact of market movements on funds under management, a primary driver of revenue, ROA and ROE have been consistent from 2009 to 2011. TSR over the three years to 30 June 2011 has also been strong.

7.6.3 CEO 3: Karoon Gas - Robert Hosking's Remuneration & Performance Analysis

	2007	2008	2009[40]	2010	2011
Share price	$2.38	$4.54	$9.09	$5.95	$5.23
ROA	N/A	N/A	N/A	N/A	N/A
ROE	N/A	N/A	N/A	N/A	N/A
Base pay	$250,000	$262,500	$410,330	$409,925	$445,562
Bonus	$0	$0	$0	$0	$0
Equity value	$0	$0	$1,374,393	$305,607	$0
Total Pay	$250,000	$262,500	$1,784,723	$715,532	$445,562

One year TSR	**-12.1%**
One year movement in total pay	-37.7%
Three year TSR	**15.2%**
Movement in total pay 2008 - 2011	69.7%

Executive chairperson of exploration entity Karoon Gas, Robert Hosking, has presided over strong – if volatile – share price growth over the period 2007 to 2011 with a peak in 2009. Over the same period his cash pay has remained modest and he has not received a cash bonus. Hosking did however receive a lucrative allocation of options early in the 2009 financial year, expensed and reported in his pay over the 2009 and 2010 financial years as having an accounting value of $1.68 million. The intrinsic value of these options when exercised in the 2011 financial year was over $4 million.

[40] Karoon reported a profit for 2009 and losses for all other years. As the 2009 profit of $4.453 million was due to foreign currency gains and not recurring revenue, no ROA and ROE was calculated for 2009.

7.6.4 CEO 4: Fleetwood Corporation - Stephen Price's Remuneration & Performance Analysis

	2010	2011
Share price	$9.19	$11.33
ROA	19.0%	19.8%
ROE	25.9%	28.2%
Base pay	N/A	$443,462
Bonus	N/A	$0
Equity value	N/A	$63,429
Total Pay	N/A	$506,891

One year TSR	**30.9%**
One year movement in total pay	N/A

Fleetwood Corporation's CEO, Stephen Price, who is not a director of the company became CEO in March 2010 (two members of the board are former executives of the company). Performance in 2011 in terms of share price, TSR and profitability improved relative to 2010. Despite this performance Price did not receive a bonus in 2011 – total bonuses across Fleetwood management were $200,000 in 2011 – and he received 50,000 options which will be expensed in 2011 and 2012.

7.6.5 CEO 5: Mineral Resources - Peter Wade's Remuneration & Performance Analysis

	2007	2008	2009	2010	2011
Share price	$3.41	$6.50	$4.25	$8.10	$11.33
ROA	14.3%	24.7%	17.3%	17.1%	16.6%
ROE	33.8%	49.1%	34.0%	32.1%	28.2%
Base pay	$398,000	$476,819	$502,456	$506,701	$553,600
Bonus	$0	$0	$0	$0	$0
Equity value	$0	$0	$0	$0	$0
Total Pay	$398,000	$476,819	$502,456	$506,701	$553,600

One year TSR	**45.5%**
One year movement in total pay	9.3%
Three year TSR	**87.3%**
Movement in total pay 2008 - 2011	16.1%

The strong performance of Mineral Resources since it listed in July 2006 has occurred under a single CEO, Peter Wade, who is now executive chairperson. Share price performance and TSR has been very strong over one year and three years and although ROE and ROA have declined since 2008, ROA remains well above 15 percent. This is despite a substantial expansion in the company's balance sheet, from assets of $158 million in 2007 to $970 million in 2011.

This performance has occurred despite the lack of any incentive arrangements for Wade over this period and fixed pay increases averaging less than 10 percent per annum compound over four years. He at the end of 20011 held 3.416 million shares with his holding having reduced from 8.116 million shares in 2007.

Appendices

Appendix A: Top 100 CEO fixed pay data 2001 to 2011 (data in italics 2001 to 2004 includes News Corp.)

Year	Average	Median	Minimum	Maximum
2011	$1,946,748	$1,914,050	$277,638	$4,573,000
2010	$1,929,062	$1,823,168	$119,057	$8,964,902
2009	$2,016,923	$1,807,561	$223,877	$8.981,956
2008	$1,947,350	$1,745,856	$198,648	$9,204,760
2007	$1,833,228	$1,533,948	$321,331	$8,885,278
2006	$1,789,826	$1,579,292	$394,769	$8,888,197
2005	$1,533,231	$1,373,437	$494,531	$8,789,826
2004	$1,416,877 *$1,554,410*	$1,353,000 *$1,376,798*	$410,437	$4,084,000 *$11,731,875*
2003	$1,361,769 *$1,424,285*	$1,136,537 *$1,137,769*	$345,056	$6,716,040 *$13,486,153*
2002	$984,045 *$1,027,288*	$903,838 *$914,330*	$50,575	$7,938,000 *$7,938,000*
2001	$888,407 *$1,008,012*	$780,975 *$781,788*	$52,055	$2,650,565 *$8,543,137*

Appendix 2: Top 100 CEO bonus data 2001 to 2011 (data in italics 2001 to 2004 includes News Corp.)

Year	Average	Median	Minimum	Maximum
2011	$1,255,212	$1,098,300	$57,750	$3,276,000
2010[41]	$1,584,120	$1,122,000	$13,642	$10,298,586
2009	$1,564,273	$1,206,662	$223,877	$8,238,246
2008	$2,016,214	$1,167,645	$202,293	$27,223,798
2007	$2,260,741	$1,360,000	$750,000	$25,615,987
2006	$1,683,252	$1,005,890	$100,000	$15,833,577
2005	$1,364,295	$1,000,000	$75,000	$13,892,889
2004	$1,293,093 *$1,671,608*	$900,000 *$911,803*	$126,000	$13,400,000 *$17,980,437*
2003	$1,102,603 *$1,283,330*	$725,000 *$735,129*	$88,000	$12,381,000
2002	$902,969 *$937,347*	$468,011 *$475,000*	$50,000	$10,944,000
2001	$769,125 *$871,389*	$377,936 *$386,805*	$73,000	$6,239,739

[41] The average bonus for the years 2005 to 2010 has been restated after UGL released its 2012 annual report. UGL previously disclosed bonuses on a cash and not an accruals basis – so the bonus disclosed in its 2011 annual report related to 2010. The 2012 annual report has disclosed bonuses on an accruals basis and so bonus data for 2005 to 2010 has been recalculated on the basis of the accrued rather than cash bonus. The median bonus for 2007 has also been restated for the same reason. The 2010 average prior to restatement was $1,573,984; the 2009 $1,613,716; the 2008 $2,003,876; the 2007 $2,251,353; the 2006 $1,678,662 and the 2005 $1,363,934. The 2007 median bonus prior to restatement was $1,334,200.

Appendix 3: Top 100 CEO cash pay data 2001 to 2011 (data in italics 2001 to 2004 includes News Corp.)

Year	Average	Median	Minimum	Maximum
2011	$3,055,428	$2,945,000	$335,388	$6,734,522
2010[42]	$3,354,770	$2,785,900	$132,699	$15,964,902
2009	$3,397,328	$2,853,198	$239,295	$14,931,956
2008	$3,814,687	$2,903,752	$198,648	$27,894,726
2007	$3,837,684	$2,900,000	$321,331	$26,286,806
2006	$3,476,833	$2,492,718	$415,862	$16,504,181
2005	$2,832,457	$2,134,534	$581,750	$14,653,688
2004	$2,787,708 *$3,146,703*	$2,408,309 *$2,408,670*	$410,437	$14,692,011 *$29,712,312*
2003	$2,141,128 *$2,444,368*	$1,740,537 *$1,773,180*	$387,472	$13,393,275 *$25,793,845*
2002	$2,200,664 *$2,381,356*	$1,427,877 *$1,447,111*	$50,575	$11,922,336 *$16,294,620*
2001	$1,814,371 *$2,018,190*	$1,375,000 *$1,422,662*	$166,457	$7,823,072 *$14,858,824*

Appendix 4: Top 100 CEO statutory pay data 2001 to 2011 (data in italics 2001 to 2004 includes News Corp.)

Year	Average	Median	Minimum	Maximum
2011	$4,724,758	$4,517,815	$426,542	$11,803,992
2010[43]	$4,991,319	$4,388,073	$132,699	$16,157,746
2009	$4,924,256	$4,039,748	-$961,853	$14,931,956
2008	$5,162,441	$4,049,293	$198,648	$24,755,444
2007	$5,540,815	$4,168,554	$404,062	$33,489,818
2006	$4,561,393	$3,274,675	$415,862	$21,210,349
2005	$3,766,549	$3,092,576	$659,002	$18,553,566
2004	$3,564,486 *$3,913,123*	$3,074,837 *$3,138,235*	$410,437	$14,692,011 *$29,712,312*
2003	$2,858,343 *$3,163,769*	$2,309,384 *$2,325,692*	$387,472	$13,393,275 *$26,681,537*
2002	$3,059,008 *$3,228,695*	$2,081,110 *$2,098,601*	$50,575	$11,922,336 *$16,294,620*
2001	$2,450,513 *$2,644,393*	$1,843,987 *$2,120,411*	$166,457	$11,682,638 *$14,858,824*

[42] Average cash pay for the years 2005 to 2010, and median cash pay for 2007, has been restated after UGL released its 2012 annual report. UGL previously disclosed bonuses on a cash and not an accruals basis as noted above. The 2010 average cash pay prior to restatement was $3,345,647; the 2009 $3,405,325; the 2008 $3,803,230; the 2007 $3,829,384; the 2006 $3,472,491 and the 2005 $2,832,132.

[43] Average total pay for the years 2005 to 2010 has been restated after UGL released its 2012 annual report. UGL previously disclosed bonuses on a cash and not an accruals basis as noted above. The 2010 statutory average prior to restatement was $4,982,196; the 2009 $4,932,253; the 2008 $5,150,984; the 2007 $5,532,515; the 2006 $4,557,051 and the 2005 $3,766,224.

Ground Floor, 215 Spring Street, Melbourne VIC 3000 Australia I T: +61 (0)3 8677 3890 I F: +61 (0)3 8677 3889 I E: info@acsi.org.au I W: www.acsi.org.au