



# CEO Pay in the Top 100 Companies: 2007

Research Paper prepared by

RiskMetrics - ISS Governance Services

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RiskMetrics Group  
Level 4  
190 Queen Street  
Melbourne Vic 3000  
Australia  
Tel: (03) 9642 2062  
Fax: (03) 9642 2092  
[www.riskmetrics.com](http://www.riskmetrics.com)

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## 1 RiskMetrics Group

ISS Governance Services is part of the RiskMetrics Group, a major risk company, providing expertise to the financial community through a broad range of research, analytics, data and other products and services. Formerly a division of JP Morgan, RiskMetrics Group became an independent company in 1998. RiskMetrics Group helps investors manage across multiple classes of interrelated risk. The company is headquartered in New York City, with 23 offices worldwide. More information is available online at: [www.riskmetrics.com](http://www.riskmetrics.com).

In June 2005, ISS acquired specialist corporate governance research firm, Proxy Australia. The combined company forms the foundation of RiskMetrics' Australian business unit, headquartered in Melbourne.

The Melbourne office provides in-market research, service and expertise to institutional investors and superannuation funds in the region and worldwide. Outside of Australia, ISS Governance Services has corporate governance and proxy voting experts on the ground in the US, UK, Canada, Belgium, France, Netherlands, Philippines, Singapore and Japan.

## 2 Executive Summary

ISS Governance Services was commissioned by the Australian Council of Super Investors' (ACSI) to conduct an empirical analysis of CEO pay in the Top 100 listed Australian companies for the 2007 financial year. This paper reports the findings of the study.

In several areas, the study revisits issues researched for ACSI for the 2001 to 2006 financial years.<sup>1</sup> Comparative statistics are provided.

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

Average annual fixed remuneration for a Top 100 company CEO increased marginally between 2006 and 2007, from \$1.80 million to \$1.83 million, or 2.1 percent. This was the lowest rate of increase in Top 100 CEO fixed pay in the history of the ACSI studies, down from a 17.1 percent increase in 2006.

The average short term incentive (STI) received by a Top 100 company CEO however increased substantially, from \$1.68 million to \$2.18 million, or 29.8 percent (conditional on an STI being received). This followed a 23.1 percent increase from 2005 to 2006 and a 5.5 percent increase from 2004 and 2005. The median STI (of those CEOs who received an STI payment) also increased, to \$1.33 million from \$1.01 million in 2006.

The nature of the longitudinal study assesses the remuneration of CEOs of the Top 100 companies, rather than the year-on-year changes of individuals' remuneration. On a company-by-company comparison, of the 56 companies included in both the 2006 and 2007 longitudinal studies with the same CEO for the entire financial year, 44 saw the fixed remuneration of their CEO increase, 11 saw Australian dollar fixed remuneration for the CEO decrease (in three cases this was due to the appreciation of the Australian dollar between 2006 and 2007 decreasing the Australian dollar value of CEO pay in other currencies) and one CEO had the same level of fixed remuneration. A similar pattern is discernable in STI payments - 38 of the 56 CEOs included in the 2006 and 2007 studies received a higher STI in 2007 compared with 2006; 17 CEOs received a lower STI and one CEO received no STI in both 2006 and 2007. This suggests that the rises in fixed remuneration and STI would in fact have been higher but for the addition of new companies to the sample, usually at the lower end of the S&P/ASX 100 (companies with lower overall levels of remuneration), although it is also these smaller companies that are most likely to drop out of the Top 100 year-to-year.

The 2007 study, as with the 2005 and 2006 studies, has adjusted overall remuneration to reflect the distorting effect of News Corporation on comparisons between remuneration of Top 100 CEOs in 2004 and 2005: The departure of News Corporation from its Australian domicile and from the S&P/ASX 100 Index between 2004 and 2005 means that the numbers for prior years, in particular for average levels of remuneration, were increased by the very large amounts received by the top-paid executive at News Corp. The 2007 report, as was the case in the 2006 report, when making comparisons between years, unless otherwise stated, is referring to numbers on an ex-News Corp basis. All tables in the report however also include average and median values, and various other statistics (in brackets) with News Corp included.

There was relatively little change in the Top 10 highest paid CEOs in 2007 compared with 2006. Of the nine CEOs in the 2006 Top 10 who were still Top 100 company CEOs in 2007, seven were again part of the Top 10 most highly paid. The other two CEOs from the 2006 study were ranked 11<sup>th</sup> and 12<sup>th</sup> in the 2007 study based on total remuneration. The company CEO who was in the 2006 Top 10 but not 2007 has retired. Of the CEOs common to the 2006 and 2007 Top 10s, all nine saw their remuneration increase by amounts ranging between 3.4 and 57.9 percent.

To be part of the Top 10 CEOs in 2006, a CEO had to receive \$8.41 million or more; in 2007 the threshold for entry increased to \$10.57 million. The total remuneration of the highest-paid CEO of a

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<sup>1</sup> RiskMetrics Group, *CEO Pay in the Top 100 Companies: 2006* (Research Paper prepared for ACSI, November 2007); ISS Australia, *CEO Pay in the Top 100 Companies: 2005* (Research Paper prepared for ACSI, September 2006); ISS Proxy Australia, *CEO Pay in the Top 100 Companies: 2004* (Research Paper prepared by for ACSI, September 2005); Institutional Analysis, *CEO Pay in the Top 100 Companies: 2003* (Research Paper prepared for ACSI, June 2004); Institutional Analysis, *CEO Pay in the Top 100 Companies: 2002* (Research Paper prepared for ACSI, May 2003); Institutional Analysis, *Board Composition and Pay in the Top 100 Companies: 2001* (Research Paper prepared for ACSI, January 2002), Section 9.

Top 100 company rose between 2006 and 2007, from \$21.21 million to \$33.49 million (Macquarie's Allan Moss in both years).

### 3 CEO Pay in the Top 100 Companies: Aggregate Statistics

This section reviews the pay of the most senior executive officer in the S&P/ASX 100 companies, over the period 2000 to 2007. All data was obtained from annual reports. The pay data information has been disclosed by the companies under section 300A of the Corporations Act and AASB 124.

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

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

For simplicity, this report refers to 'CEO pay'. However, in relation to some companies 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.

#### 3.1 Breakdown of components and 2001-2007 change analysis

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In this section the following elements of remuneration are analysed:

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

##### 3.1.1 Fixed remuneration

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Fixed remuneration is those components of a CEO's pay which do not vary with performance. These often include:

- Base (cash) salary;
- Superannuation;
- Motor vehicle allowance;
- Other allowances; and
- Non-cash benefits.

Of these, base salary is almost always the most significant component. In 2007, it accounted for 86.1 percent of the average total fixed remuneration of the CEOs (compared to 80.6 percent in 2006 and 86.3 percent in 2005).

Table 3.1 shows the fixed-remuneration statistics for the period 2001 to 2007. Figures for 2003 and 2004 in brackets refer to numbers including News Corp, while the numbers referred to below in the text are on an ex-News Corp basis.

Between 2006 and 2007, mean fixed remuneration increased marginally by 2.1 percent from \$1.80 million to \$1.83 million, the lowest annual increase in the history of the ACSI longitudinal studies.

This was down from a 17.1 percent increase in fixed pay between 2005 and 2006. The median decreased by 2.9 percent between 2006 and 2007, down significantly from the 15 percent increase between 2005 and 2006, however closer to the 1.5 percent increase from 2004 to 2005. The gap between the average and the median grew more rapidly in 2007, indicating that levels of fixed remuneration were more variable across the S&P/ASX 100 in 2007 than in 2006.

#### CEO wage growth in context

Over the period from 2001 to 2007, median fixed remuneration increased by 96.4 percent in total, or 11.9 percent per annum compound, even allowing for the slight decrease in median CEO fixed pay in 2007. Over the same period, average adult weekly ordinary time earnings increased by 32.3 percent, while the consumer price index increased by 17.7 percent.<sup>2</sup> As base salary and other aspects of fixed remuneration are (by definition) not explicitly tied to the company's performance, companies should disclose clearly the reason or reasons behind a significant increase in base salary.

Few companies, despite requests from ACSI and individual shareholders, provide explanations of fixed pay increases beyond generic disclosures stating fixed pay is reviewed annually with regard to movements in pay at other companies of a similar size.

Table 3.1 also shows the range of fixed pay: from \$321,331 to \$8.89 million. In 2007, the smallest fixed pay package was at its lowest level since 2003, when part-year CEOs started to be excluded from the study.

Figure 3.1 shows the distribution of fixed remuneration among the 69 CEOs. Overall the data shows a positively skewed normal distribution, apart from a significant outlier receiving just under \$9 million per annum in fixed remuneration. Of the 69 CEOs in the study, 36 were paid between \$1.2 million and \$2.4 million; 18 were paid between \$0.3 million and \$1.2 million; 12 were paid between \$2.4 million and \$3.6 million; and three received fixed entitlements in excess of \$3.6 million including the outlier (Westfield's Frank Lowy) who received \$8.9 million.

<sup>2</sup> Both figures are from the Australian Bureau of Statistics; the wages figure is from 31 May 2001 to 31 May 2007; the CPI figure is the eight capital cities CPI index and is from 30 June 2001 to 30 June 2007. Please see [www.abs.gov.au](http://www.abs.gov.au) for additional information, catalogue numbers 6302.0 and 6401.0.



	2001	2002	2003	2004	2005	2006	2007
<b>Average</b>	\$888,407 (\$1,008,012)	\$984,045 (\$1,027,288)	\$1,361,769 (\$1,424,285)	\$1,416,877 (\$1,554,410)	\$1,533,231	\$1,795,658	\$1,833,228
<b>Median</b>	\$780,975 (\$781,788)	\$903,838 (\$914,330)	\$1,136,537 (\$1,137,769)	\$1,353,000 (\$1,376,798)	\$1,373,437	\$1,579,292	\$1,533,948
<b>Minimum</b>	\$52,055	\$50,575	\$345,056	\$410,437	\$494,531	\$394,769	\$321,331
<b>Maximum</b>	\$2,650,565 (\$8,543,137)	\$7,938,000 (\$7,938,000)	\$6,716,040 (\$13,486,153)	\$4,084,000 (\$11,731,875)	\$8,789,826	\$8,888,197	\$8,885,278
<b>Change in Average</b>		+\$95,638 (+\$19,276)	+\$377,724 (+\$396,997)	+\$55,108 (+\$130,125)	+\$116,354	+\$262,427	+\$37,570

Table 3.1 - Fixed remuneration: 2001 - 2007 comparison (figures in brackets include News Corporation)

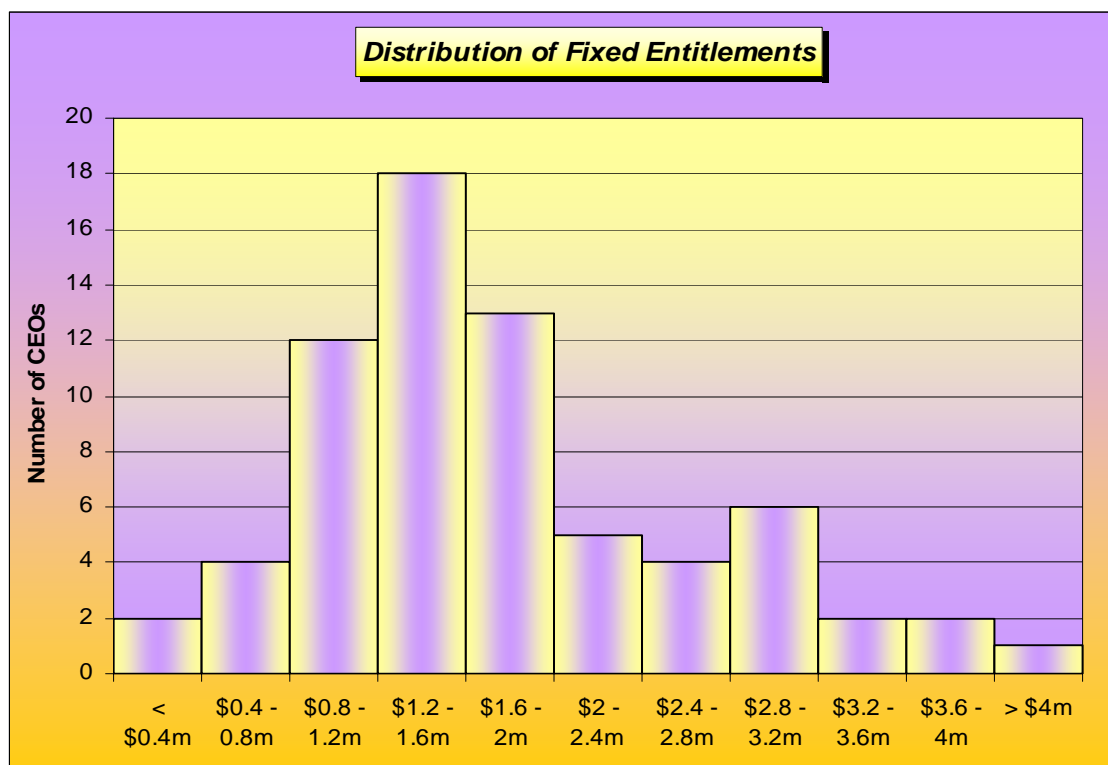


Figure 3.1: Distribution of fixed remuneration payments

### 3.1.2 Short-term incentive

Most Top 100 companies have a short-term incentive plan (STIP) for their senior executives, designed to reward executives for performance across a single financial year (or in some cases, achieving milestones against strategic targets set over several years). Of the 69 sample companies in this study, 61 (88.4 percent) made a payment to their CEO under a STIP.<sup>3</sup>

Unlike a long-term incentive plan (LTIP), it is not common for a STIP's performance measures to relate to the company's share price or total shareholder return. Such plans usually have performance indicators relating to: (a) 'quantitative' metrics such as company-wide accounting performance (such as earnings before interest, depreciation, tax and amortisation), business-division performance, successful completion of major projects, etc; and (b) 'qualitative' metrics such as customer or employee satisfaction. An increasing trend has been for companies to also include measures relating to sustainability (such as occupational health and safety) in annual bonus programs (the most striking example is Westpac, where the former CEO, David Morgan, had part of his annual bonus assessed against Westpac retaining its ranking in an index of sustainable finance companies).

In 2007, the percentage of Top 100 companies CEOs who got an annual bonus dropped from 94.6 percent (the highest in the history of the ACSI longitudinal study, recorded in 2006) to 88.4 percent. In contrast, 25 percent of CEOs in the sample received no bonus in 2002; 20.5 percent in 2003; 9.5 percent in 2004; and 10 percent received no bonus in 2005. Although the number of CEOs receiving a bonus decreased, there was a substantial increase in average and median bonus levels for CEOs receiving a bonus. In 2002, for example, the aggregate bonus paid to the 60 CEOs who received an STI was \$54.2 million. By 2007, the aggregate bonus received by the 61 executives who received an STI was \$132.87 million. In other words, the amount of shareholders' money paid as annual bonuses to CEOs in the Top 100 companies has more than doubled over five years and the proportion of CEOs receiving a bonus has risen by 14.9 percent. The increased number of CEOs receiving larger STIs between 2002 and 2007 has also coincided with increased shareholder scrutiny of the terms of equity grants made to CEOs.

By far the most common type of STI is an annual cash bonus. Of the 61 companies in the sample that made a payment under a STIP, 58 sample companies paid the short-term incentive award entirely in cash and the other companies delivered the incentive partly as a cash bonus and partly in the form of shares.

Table 3.2 shows the short-term incentive figures for 2001 to 2007. Figures for 2003 and 2004 in brackets refer to numbers including News Corp, while the numbers referred to below in the text are on an ex-News Corp basis. In 2007, the median bonus increased by 32.6 percent, from \$995,000 to \$1.33 million and the mean bonus payment increased by 29.8 percent from \$1.68 million to \$2.18 million (up from a 23.1 percent increase in 2006).<sup>4</sup> Table 3.2 also shows the range of short-term incentive payments at those companies where such a payment was made, from \$75,000 to \$25.6 million.

Figure 3.2 shows the distribution of short-term incentive payments (for those CEOs who received a short-term incentive payment). 44 of the 61 short-term incentive payments were less than or equal

<sup>3</sup> One Top 100 company CEO, Brambles' David Turner, received an STI during 2007 but this was not disclosed separately and he is therefore not included in the 62 CEOs who received an STI during 2007. This is because Turner retired as CEO on 30 June 2007, the last day of Brambles' 2007 financial year, and his STI was paid as part of his termination payments.

<sup>4</sup> The STI figure from the 2006 study has been restated; this is because in compiling the 2007 study an error in the 2006 figures was discovered: The STI payment to the Suncorp CEO in 2006 was mistakenly classified as part of his long term incentive. The 2006 figures have been restated to reflect the correction of this error; this means the STI figures for 2006 and the total remuneration ex LTI figure for 2006 have changed; total pay and fixed pay remain unchanged. The STI figures disclosed in the 2006 study that have been restated in 2007 were as follows: Average STI \$1,655,805; median STI \$1,005,890; minimum STI \$31,742. The total remuneration excluding LTI figures disclosed in the 2006 study that have been restated were average cash pay \$3,450,869 and median \$2,453,505. Figures have also been restated in Table 3.6.

to \$2 million. Two CEOs (Moss of Macquarie and Paul Little of Toll Holdings) received in excess of \$10 million each in short-term incentive payments.<sup>5</sup>

	2001	2002	2003	2004	2005	2006	2007
<b>Average</b>	\$769,125 (\$871,389)	\$902,969 (\$937,347)	\$1,102,603 (\$1,283,330)	\$1,293,093 (\$1,671,608)	\$1,363,934	\$1,678,662	\$2,178,274
<b>Median</b>	\$377,936 (\$386,805)	\$468,011 (\$475,000)	\$725,000 (\$735,129)	\$900,000 (\$911,803)	\$1,000,000	\$1,005,890	\$1,334,200
<b>Minimum</b>	\$73,000	\$50,000	\$88,000	\$126,000	\$75,000	\$100,000	\$750,000
<b>Maximum</b>	\$6,239,739 (\$6,239,739)	\$10,944,000 (\$10,944,000)	\$12,381,000 (\$12,381,000)	\$13,400,000 (\$17,980,437)	\$13,892,889	\$15,833,577	\$25,615,987
<b>Change in Average</b>		+\$133,844 (+\$65,958)	+\$199,634 (+\$345,983)	+\$190,490 (+\$388,278)	+\$119,733	+\$314,728	+\$499,612

Table 3.2. Short-term incentive: 2001-2007 comparison (conditional upon a short-term incentive payment having been made; figures in brackets include News Corporation)

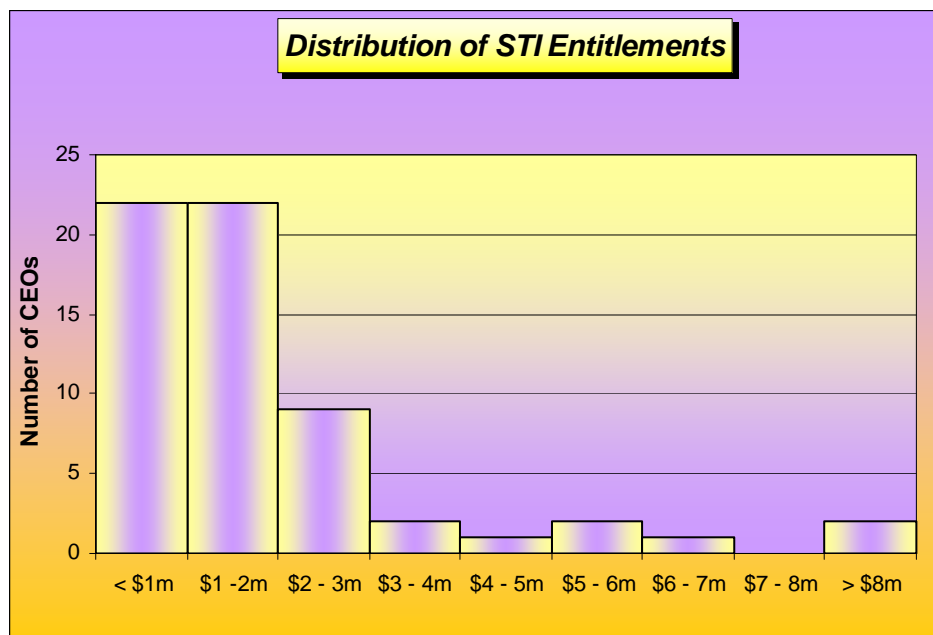


Figure 3.2: Distribution of short term incentive payments (conditional on STI payment being made)

<sup>5</sup> The STI numbers do not include the deferred STI paid to Moss, the CEO of Macquarie Group, which is instead treated as part of his LTI. Moss received the highest STI in 2005, 2006 and 2007. The 2005 STI numbers have been restated to exclude this deferred portion from STI and shift it into LTI, consistent with the treatment in other years. Paul Little's annual bonus in 2007 was distorted by the Toll board's decision to convert three annual grants of options (covering the period 2006 to 2011) into a single lump sum cash payment following the separation of Toll into Toll and Asciano. This payment is included as an annual bonus despite it being effectively guaranteed; it was conditional on Little remaining employed with the company.

### 3.1.3 Total remuneration excluding long-term incentive

#### Background

It is important to consider total pay both *including* and *excluding* the long-term incentive, which is typically subject to performance conditions and paid in equity. The way companies in the past made long-term incentive awards, and recorded the value of them in the annual report, led to significant fluctuations in total pay from year to year:

- Until approximately 2001 - 2002, it was common for companies to make 'lumpy' grants of options (or another incentive instrument) under the LTIP (some companies, such as Tabcorp, continued this practice until 2006). That is, the CEO was granted options only once every three or four years. However, many Top 100 companies have in the last three or four years moved towards making more regular (annual) awards of options.
- Until 2003, when an Australian company disclosed the value of executive share options granted, it would typically allocate the entire value as at the date of grant.

In combination, these two factors meant that a CEOs total remuneration including long-term incentive could fluctuate considerably. It would appear to be relatively high in those years when options were granted, and relatively low in those years when options were not granted. However, since 2003 companies have been required to allocate the value of options (and other equity incentives) across the entire vesting period. This removes the lumpiness problem, although changes to accounting standards over this period have meant that companies have not necessarily valued long term incentives in the same way from 2003 to 2007.

#### Results

Table 3.3 compares total remuneration (excluding long-term incentive) for the sample companies over the period 2001 to 2007. Figures for 2003 and 2004 in brackets refer to numbers including News Corp, while the numbers referred to below in the text are on an ex-News Corp basis. Mean pay excluding long-term incentive payments (cash pay, although a handful of companies use cash to pay long term incentives and shares to pay part of annual bonuses) increased by 8.8 percent from \$3.47 million in 2006 to \$3.78 million in 2007. This was lower than the 22.6 percent increase between 2005 and 2006 although much larger than the 1.6 percent increase in average cash pay between 2004 and 2005.

There is a long term trend of increased cash pay since 2001. Median total remuneration excluding long-term incentives was \$2.86 million in 2007, 14.8 percent higher than in 2006, when there was a 16.8 percent increase from 2005. It should be noted however, that the median figure decreased by 11.4 percent between 2004 and 2005, meaning median cash pay in 2006 was only 3.5 percent higher than median cash pay in 2004.

Table 3.3 also shows that total cash pay was more broadly dispersed than in 2006, ranging from \$0.32 million to \$26.3 million in 2007. On an ex-News Corp basis, the highest paid CEO received total remuneration less LTI of \$16.5 million in 2006, \$14.7 million in 2005 and \$14.7 million in 2004. In both 2003 and 2004, the highest paid CEO on a cash pay basis was Westfield's Frank Lowy; and since 2005 it was Macquarie Group's Allan Moss.

Figure 3.3 shows the distribution of total CEO pay excluding long-term incentive payments. In total, 51 CEOs were paid less than \$4 million in cash pay in 2007 and 13 were paid between \$4.1 million and \$6.9 million. Five CEOs (Moss of Macquarie Group, Lowy of Westfield, Little of Toll Holdings, King of Leighton Holdings and Trujillo of Telstra) received significantly higher remuneration than their peers on a total remuneration less LTI basis, with a minimum of \$8 million.

	2001	2002	2003	2004	2005	2006	2007
<b>Average</b>	\$2,018,190	\$2,381,356	\$2,141,128 (\$2,444,368)	\$2,787,708 (\$3,146,703)	\$2,832,132	\$3,472,491	\$3,779,271
<b>Median</b>	\$1,422,662	\$1,447,111	\$1,740,537 (\$1,773,180)	\$2,408,309 (\$2,408,670)	\$2,134,534	\$2,492,718	\$2,862,491
<b>Minimum</b>	\$166,457	\$50,575	\$387,472	\$410,437	\$581,750	\$415,862	\$321,331
<b>Maximum</b>	\$14,858,824	\$16,294,620	\$13,393,275 (\$25,793,845)	\$14,692,011 (\$29,712,312)	\$14,653,688	\$16,504,181	\$26,286,806
<b>Change in Average</b>		+\$363,166	+\$63,012	+\$646,580 (+\$702,335)	+93,316 (-\$256,679)	+\$640,359	+\$306,780

Table 3.3 - Total remuneration excluding long term incentive: 2001 - 2007 comparison (figures in brackets include News Corporation)

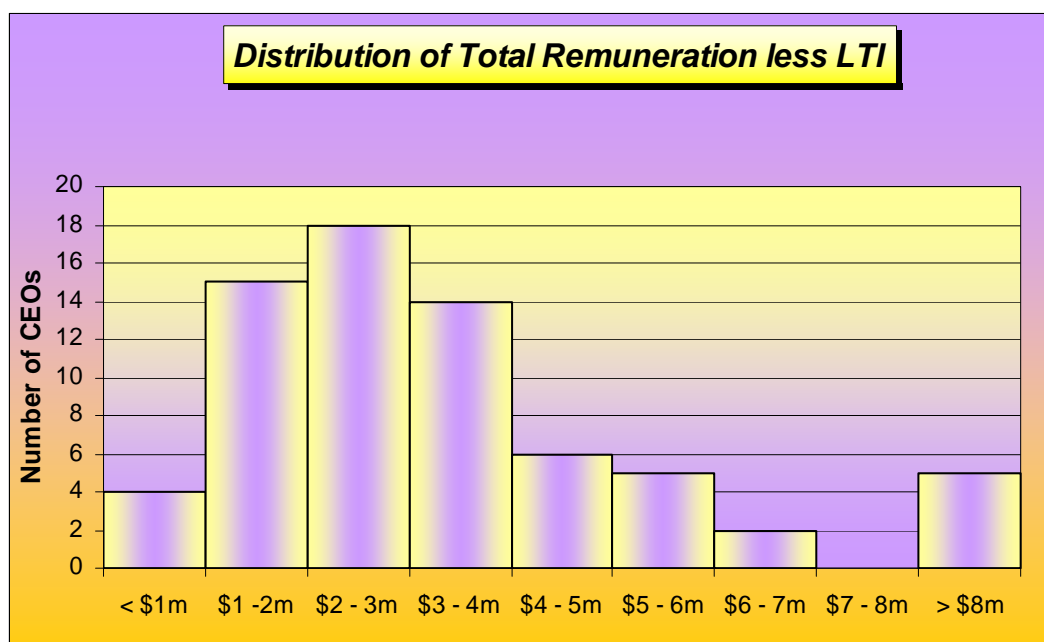


Figure 3.3: Distribution of total remuneration excluding long term incentive payments

### 3.1.4 Total remuneration including long-term incentive

This section examines CEOs' total remuneration packages, including the value of long-term incentives, as disclosed by the companies in their annual reports.

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

Table 3.4 shows that total pay including long-term incentive payments ranged from \$404,062 to \$33.49 million in 2007. Figures for 2003 and 2004 in brackets refer to numbers including News Corp, while the numbers referred to below in the text are on an ex-News Corp basis. The 2001 and 2002 minimums reflect CEOs who had been in office for less than a full financial year. If News Corp is excluded from the sample, the highest paid CEO including LTI in 2003 and 2004 was Westfield's Frank Lowy, while from 2005 to 2007 it was Macquarie Group's Allan Moss.

Figure 3.4 shows the distribution of total CEO pay including long-term incentive payments. The data underlying Figure 3.4 indicates that 50 CEOs were paid less than \$5.34 million, below the mean figure; 16 CEOs were paid above the average but below \$13.88 million while three CEOs - Moss of Macquarie, Phil Green of Babcock & Brown and Lowy of Westfield - received considerably more remuneration (\$15.89 million or more) than their peers.

When examining total pay including the value of long-term incentives, the accounting treatment of long-term incentives should be borne in mind. Australian accounting standards (reflecting IFRS) require the value of long-term equity incentives to be calculated in the year they are granted, and then allocated pro-rata in each remuneration report during the vesting period. The up-front valuation and amortisation over several years, coupled with annual grants of equity incentives, means the long-term incentive component of CEO pay reported by a company in any particular year typically includes several allocations of equity incentives granted over several years. The method of valuation also takes into account the potential probability of the incentive vesting, and thus the actual equity incentive received by a CEO may be significantly higher (or lower) than the reported figure.

Past work by ISS suggests that the probability of a CEO deriving a greater value from equity incentives than the reported value is much higher than the probability of a CEO deriving less value. Of 70 CEO equity grants exercised in 2005 and 2006, 68 resulted in the CEO deriving a higher value than reported to shareholders in remuneration disclosures; 24 tranches of options lapsed in 2006. On the other hand, in 2006 and 2007, the first wave of equity grants subject to demanding relative total shareholder return targets have begun to fall due, and anecdotal evidence suggests these grants are vesting at a much lower rate than past grants of equity. It should also be noted that the above results cover a period during which equity markets generally rose which may also have contributed to the under-reporting of long term incentive values in company disclosures.

	2001	2002	2003	2004	2005	2006	2007
<b>Average</b>	\$2,644,393	\$3,228,695	\$2,858,343 (\$3,163,769)	\$3,564,486 (\$3,913,123)	\$3,766,224	\$4,557,051	\$5,532,515
<b>Median</b>	\$2,120,411	\$2,098,601	\$2,309,384 (\$2,325,692)	\$3,074,837 (\$3,138,235)	\$3,092,576	\$3,274,675	\$4,168,554
<b>Minimum</b>	\$166,457	\$50,575	\$387,472	\$410,437	\$659,002	\$415,862	\$404,062
<b>Maximum</b>	\$14,858,823	\$16,294,620	\$13,393,275 (\$26,681,537)	\$14,692,011 (\$29,712,31)	\$18,553,566	\$21,210,349	\$33,489,818
<b>Change in Average</b>		+\$584,302	-\$64,926	+\$706,143 (+\$749,354)	+\$201,738 (-\$146,899)	+\$790,827	+\$975,464

Table 3.4 - Total remuneration including long-term incentive: 2001 - 2007 comparison (figures in brackets include News Corporation)

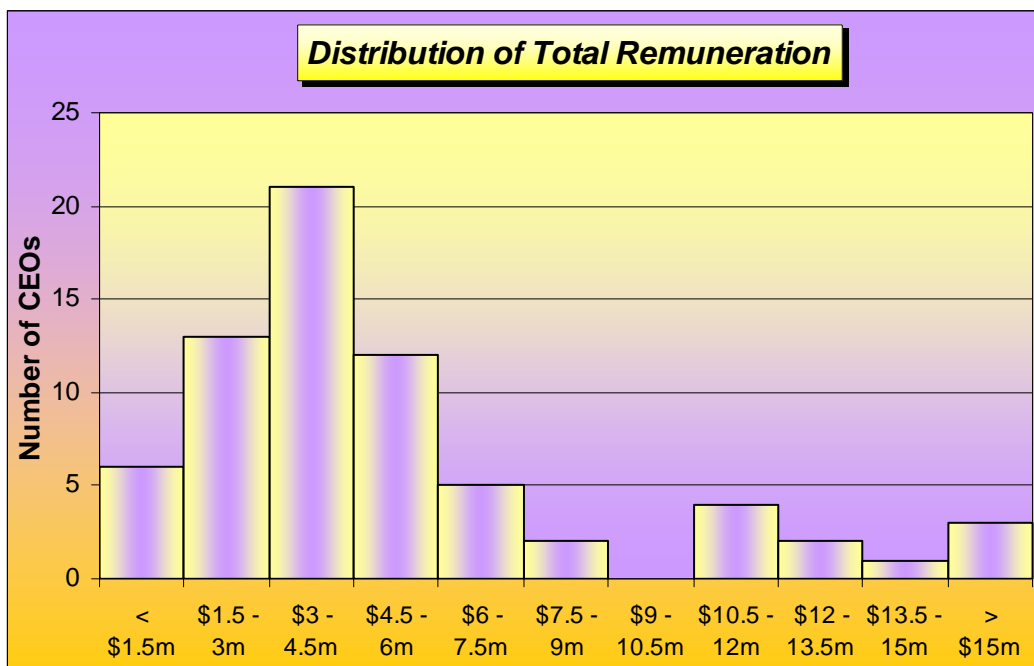


Figure 3.4. Distribution of total remuneration (including long-term incentive)

<b>CEO Remuneration by Industry - 2007</b>					
	<b>Consumer Discretionary</b>	<b>Consumer Staples</b>	<b>Energy</b>	<b>Financials ex Property Trusts</b>	<b>Health Care</b>
<b>Average</b>	\$ 3,030,865	\$ 3,851,869	\$ 3,183,893	\$ 7,726,184	\$ 3,384,550
<b>Median</b>	\$ 2,576,953	\$ 3,367,860	\$ 3,025,609	\$ 4,515,186	\$ 3,160,214
<b>Min</b>	\$ 697,000	\$ 1,363,405	\$ 1,498,715	\$ 404,062	\$ 1,760,373
<b>Max</b>	\$ 6,672,695	\$ 7,359,283	\$ 4,800,254	\$ 33,489,818	\$ 5,578,778
<b># CEOs</b>	6	7	6	20	6
	<b>Industrials</b>	<b>Materials</b>	<b>Telecomm. Services</b>	<b>Utilities</b>	
<b>Average</b>	\$ 7,279,783	\$ 4,384,124	\$ 11,782,230	\$ 11,262,642	
<b>Median</b>	\$ 6,006,003	\$ 4,257,389	-	-	
<b>Min</b>	\$ 1,955,346	\$ 1,492,795	-	-	
<b>Max</b>	\$ 13,881,005	\$ 11,163,353	-	-	
<b># CEOs</b>	8	14	1	1	

Table 3.5: CEO total remuneration including long-term incentive, by industry - 2007

Table 3.5 shows a breakdown of total remuneration (including long-term incentive payments) across industry groups. The statistics indicate CEOs in the Financials ex-Property Trusts sector were paid substantially more than CEOs in other sectors (with the exception of CEOs in the Industrials sector), even if the impact of highly paid outliers is excluded.



### 3.2 *The incumbency effect*

This year's longitudinal also includes a comparison of changes in the remuneration of those CEOs who were included in both the 2006 and the 2007 survey. This is designed to show the impact of incumbency and consistency on CEO remuneration. The ACSI study, due to the sample method of including only companies in the S&P/ASX 100 as of a particular date, has dealt with a constantly changing sample as CEOs retire, and as companies are either acquired, fall out of the Top 100 or enter the Top 100 due to rapid growth.

The impact of this changing sample on the overall numbers can be seen if only CEOs in office at a Top 100 company in both 2006 and 2007 are included. For this sample of 56 CEOs, average fixed pay is \$1.9 million, up from \$1.79 million in 2006 (a 6.1 percent increase compared to a 2.1 percent increase across the full sample of 69 CEOs). Median and fixed CEO pay in this sample is also higher than in the full sample: Average fixed pay is 3.8 percent higher and median fixed pay is 7.1 percent higher.

This trend towards higher remuneration among incumbent CEOs is repeated across all components of CEO pay: The average STI (based on only those CEOs who received an STI) of the 56 CEOs in both the 2006 and 2007 studies is 10.1 percent higher than that of the average STI of CEOs in the full sample. Total CEO pay among the incumbents is also higher than in the full sample, at \$5.99 million compared to \$5.53 million.

The benefit of incumbency for CEOs is also illustrated by the rate of increase in pay. Incumbent CEOs enjoyed faster increases in average and median fixed pay, STI, total remuneration excluding LTI and total remuneration including LTI than the full sample of CEOs.

Of the incumbents, 44 enjoyed fixed pay increases and 11 saw fixed pay in Australian dollar terms decrease (in three cases this was due to the impact of the Australian dollar appreciating against the US dollar; in four cases the decline in fixed pay was less than 2 percent; in three cases it was due to CEOs receiving non-salary contractual benefits in 2006 that were not replicated in 2007 and in one case the decline was due to a change in annual leave accruals between 2006 and 2007). One incumbent's fixed pay was unchanged.

A similar story emerged with STIs: Of the 56 incumbent CEOs, 39 received a higher STI in 2007 than in 2006 and 17 received a lower STI (in three cases this was partly due to the appreciation of the Australian dollar against the US dollar; in two cases this was due to one-off events and in one case a CEO who received no bonus in 2007 was terminated shortly after the end of the 2007 financial year for poor performance).

	2006		2007	
	<i>Average</i>	<i>Median</i>	<i>Average</i>	<i>Median</i>
<b>Fixed Rem.</b>	\$1,793,770	\$1,565,917	\$1,903,460	\$1,642,120
<b>STI</b>	\$1,837,863	\$1,011,780	\$2,398,326	\$1,400,000
<b>Total excl LTI</b>	\$3,541,204	\$2,388,388	\$4,110,279	\$3,046,921
<b>Total Rem.</b>	\$4,703,993	\$3,199,479	\$5,990,323	\$4,305,788

### 3.3 Remuneration components in detail

This section is designed to allow analysis of the relative significance of base salary, annual bonus (short-term incentive), options/shares (long-term incentive), and other components of CEO remuneration.

The rules under which Australian companies disclose executive pay have been in a state of flux in recent years although there have been no changes of note over the past two years. These two years of relative stability in disclosure requirements follow several years of continual changes in the regulatory requirements on executive remuneration disclosure, encompassing ASIC's 2003 clarification that the value of options granted to executives had to be disclosed as a component of executive pay, the introduction of the remuneration report disclosure requirements and the change from AASB 1046 to AASB 124, as Australia adopted International Financial Reporting Standards.

Table 3.6 provides a breakdown of the key components of CEO pay in the Top 100 companies, for the period 2001 to 2007. These figures have not been adjusted to account for the departure of News Corporation between 2004 and 2005.

Some points to note about Table 3.6 are:

- The total value of all remuneration received by the sample CEOs increased by approximately \$44,52 million, or 13.2 percent, from 2006 to 2007, despite the sample size decreasing from 74 to 69, or by 6.8 percent.
- As a component of total pay, the proportion of short-term incentive was consistent with the figure a year earlier, staying at 34.8 percent of total pay in both 2006 and 2007. However this proportion is still lower than in 2004, when it represented 38.7 percent of total pay. This is partly due to the restructure of Westfield's Frank Lowy's pay upon the stapling of Westfield securities in 2005, which resulted in a substantial decrease in Mr Lowy's annual bonus (and an increase in his fixed pay). Taking both short-term cash and share bonuses into account, the total proportion has increased from 25.7 percent in 2001 to 34.8 percent in 2007, or by about one-third.
- The aggregate value of long-term incentives accounted for 31.7 percent of total pay in 2007, up considerably from 23.8 percent in 2006. This increase was in part due to the decision by Babcock & Brown to award the majority of its CEO's 2007 bonus as deferred equity, vesting over several years, rather than vesting immediately as cash. If Babcock & Brown had followed its past practice of allocating 75 percent of annual bonuses as cash and the remainder as deferred equity, then the share of total Top 100 CEO remuneration paid as long term incentive would have declined to 28.6 percent and the proportion paid as short term incentive would have increased to 39.3 percent.
- For 2001 and 2002, the data on 'Allowances', 'Motor Vehicle' and 'Retirement Benefits' was aggregated and included with the 'Other benefit' category, due to the way companies disclosed remuneration at that time. However, even though those three components of pay are itemised since 2003, the 'Other benefit' figure will still include some motor vehicle allowances, retirement benefits and other allowances, as some companies continue not to provide separate figures. For the same reason, the 'Other benefit' category also includes some superannuation for all five years.
  - Those companies that aggregate several items into 'Other Benefits' in their remuneration tables typically include a footnote which specifies the types of benefit included in 'Other Benefits'. However, they do not always provide a breakdown of the dollar amount per benefit. This should be disclosed as it is useful information for institutional shareholders.
- For 2003 through to 2007, the manner in which shares were provided as a long-term incentive is separately itemised - either as 'Performance Rights', 'Deferred Shares', 'Loan-Funded Share Scheme' or 'Free Shares'. Performance rights and deferred shares (called 'performance shares' by some companies) are zero exercise price options (ZEPOs). An executive receiving ZEPOs, unlike an executive who receives traditional options, is not required to pay anything material to the company at the time of vesting (some companies require an executive to pay \$1 to exercise a tranche of ZEPOs). The exercise price is zero – whereas the exercise price for traditional options is normally based on the company's share price on the date the options were granted or the date the company decided to grant the options.

	2001 Total Amount	2002 Total Amount	2003 Total Amount	2004 Total Amount	2005 Total Amount	2006 Total Amount	2007 Total Amount	2001 % of total pay	2002 % of total pay	2003 % of total pay	2004 % of total pay	2005 % of total pay	2006 % of total pay	2007 % of total pay
<b>Base salary</b>	\$64,512,799	\$80,211,417	\$92,421,433	\$88,298,660	\$105,796,390	\$107,171,107	\$106,931,799	38.1%	31.50%	37.50%	30.06%	35.11%	31.78%	28.10%
<b>Bonus component (Cash)</b>	\$43,569,466	\$59,128,151	\$78,209,362	\$108,415,934	\$93,744,474	\$112,931,873	\$128,406,811	25.70%	23.20%	31.11%	36.91%	32.41%	33.49%	33.64%
<b>Bonus component (Shares)</b>			\$1,357,121	\$5,253,416	\$4,775,216	\$4,574,463	\$4,467,916			0.60%	1.79%	1.58%	1.36%	1.17%
<b>Other benefit</b>	\$7,922,605	\$22,810,308	\$9,573,645	\$12,847,217	\$8,150,114	\$10,449,323	\$7,284,369	4.70%	9.00%	3.90%	4.37%	2.71%	3.10%	1.91%
<b>Superannuation</b>	\$2,414,713	\$5,869,570	\$3,041,119	\$12,824,132	\$8,205,386	\$11,002,596	\$9,916,559	1.40%	2.30%	1.20%	4.37%	2.72%	3.26%	2.60%
<b>Allowances</b>	-	-	\$841,986	\$2,363,517	\$376,363	\$4,208,403	\$2,359,975			0.30%	0.80%	0.12%	1.25%	0.62%
<b>Motor Vehicle</b>	-	-	\$217,774	\$247,215	\$130,201	\$51,714	-			0.10%	0.08%	0.04%	0.02%	-
<b>Retirement Benefits</b>	-	-	\$4,998,265	\$5,752,636	\$5,392,423	\$6,574,830	\$1,402,246			2.00%	1.96%	1.79%	1.95%	0.37%
<b>Cash long-term incentive payment</b>	\$7,458,969	\$13,830,484	\$10,870,061	\$12,561,866	\$15,956,734	\$12,109,694	\$28,230,998	4.40%	5.40%	4.40%	4.28%	5.30%	3.59%	7.40%
<b>Options</b>	\$22,562,872	\$50,642,948	\$26,644,319	\$22,804,464	\$22,035,660	\$22,601,271	\$35,241,777	13.30%	19.90%	10.80%	7.76%	7.31%	6.07%	9.23%
<b>Performance Rights</b>	\$17,514,110	\$22,076,408	\$10,488,984	\$11,709,375	\$16,798,160	\$27,958,299	\$33,432,333	10.30%	8.70%	4.30%	3.99%	5.58%	8.29%	8.76%
<b>Deferred Shares</b>			\$6,143,166	\$9,946,831	\$18,305,452	\$12,346,469	\$22,422,093			2.50%	3.39%	6.08%	3.66%	5.87%
<b>Loan-Funded Share Scheme</b>			\$1,966,764	\$732,405	\$1,629,248	\$5,241,739	\$1,645,627			0.80%	0.25%	0.54%	1.55%	0.43%
<b>Free Shares</b>			-	\$1,282	\$1,832	-	\$1,000			-	4.4%	6.1%	-	0%
<b>Total</b>	\$169,241,163	\$251,838,210	\$246,773,999	\$293,758,949	\$301,297,952	\$337,221,781	\$381,743,502	100%	100%	100%	100%	100%	100%	100%

Table 3.6. Components of total remuneration (News Corporation is included in 2001 - 2004 figures)

	2001 # CEOs with element of pay	2002 # CEOs with element of pay	2003 # CEOs with element of pay	2004 # CEOs with element of pay	2005 # CEOs with element of pay	2006 # CEOs with element of pay	2007 # CEOs with element of pay
<b>Base salary</b>	64	78	78	75	80	74	69
<b>Bonus component (Cash)</b>	50	62	61	66	69	69	61
<b>Bonus component (Shares)</b>			2	4	6	4	3
<b>Other benefit</b>	48	56	51	57	66	54	56
<b>Super</b>	32	45	40	57	64	64	60
<b>Allowances</b>	-	-	4	4	6	16	16
<b>Motor Vehicle</b>	-	-	4	3	3	3	-
<b>Retirement Benefits</b>	-	-	4	8	5	6	4
<b>Cash long-term incentive payment</b>	11	7	5	8	5	10	17
<b>Options</b>	19	39	36	38	34	29	37
<b>Performance Rights</b>	15	12	15	21	23	29	21
<b>Deferred Shares</b>			10	16	22	18	16
<b>Loan-Funded Share Scheme</b>			9	6	7	8	4
<b>Free Shares</b>			-	1	2	-	1
<b>Total</b>	-	-	78	75	80	74	69

## 4 Top 10 Case Studies

This section discusses 10 'pay-for-performance' case studies.

The 10 highest-paid CEOs were selected from the data discussed earlier in the report. The pay figure used to determine the ranking of CEOs was total pay including long-term incentive. Table 5.1 shows the remuneration for the CEOs selected.

Having identified the top 10 CEOs on that basis, pay and corporate performance data was collected for the period 2001 to 2007.

It should be noted that two of the top 10 entities (Westfield and AGL Energy) underwent major restructurings in the past four years. As a consequence, performance measures are not strictly comparable for Westfield before and after 2004; and in AGL Energy's case, no point of comparison prior to 2006 exists. In addition, Babcock & Brown listed on the ASX in late 2004 and so performance measures are only applicable from 2004 onwards. Finally, four of the CEOs below (Clarke, Trujillo, Anthony and Goodyear) have not been in office for the entire seven-year period in question. As a result, performance can only be compared from the point at which they became CEO.

	<b>Top 10 CEO in study</b>	<b>2007 Total Remuneration</b>
1	Allan Moss (MBL)	\$33,489,818
2	Philip Green (BNB)	\$22,094,631
3	Frank Lowy (WDC)	\$15,885,278
4	Wal King (LEI)	\$13,881,005
5	Paul Little (TOL)	\$13,429,000
6	Greg Clarke (LLC)	\$12,280,000
7	Solomon Trujillo (TLS)	\$11,782,230
8	Paul Anthony (AGK)	\$11,262,642
9	Charles Goodyear (BHP)	\$11,163,353
10	David Morgan (WBC)	\$10,570,442
	<b>Average</b>	<b>\$15,583,840</b>

Table 5.1: CEO case studies, 2007

What is apparent from the above data is the disproportionate share of total Top 100 remuneration enjoyed by the 10 highest paid CEOs: These 10 individuals accounted for 40.8 percent of total remuneration; that is, 14.5 percent of the sample CEOs accounted for 40.8 percent of total remuneration. If the 10 highest paid CEOs are excluded from the sample, average total remuneration for a Top 100 company CEO in 2007 falls from \$5.53 million to \$3.83 million. In 2006, the top 10 accounted for 34.8 percent of total Top 100 company CEO pay and had the 10 highest paid CEOs been excluded, average CEO pay in 2006 would have fallen from \$4.56 million to \$3.43 million.

Measures of performance used

Over the following pages graphs are shown comparing the CEOs remuneration over the last seven years compared to three measures of corporate performance:

- Share Price Performance (SPP).
- Return on Assets (ROA).
- Total Shareholder Return (TSR).

SPP captures the performance of the company's share price over several years. The share prices used have been adjusted for capital restructuring and are taken at the company's reporting date.

For example, if a company has a 30 June year-end, the share prices shown are as at 30 June 2001, 30 June 2007, etc.

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

TSR is the total financial return a shareholder would obtain from owning the company's shares for a period of time. TSR for one year takes into account the increase (or decrease) in the share price between the start and end of the year in question, and also the value of dividends paid by the company during the year (which are assumed to have been reinvested in the company's scrip). TSR is expressed as a percentage. The graphs show one-year TSR and three-year TSR. One-year TSR is the return for the company's financial year ending in 2007 (e.g. the year to 30 June 2007 for 30 June year-end companies, or to 31 December 2007 for 31 December year-end companies). The three-year TSR figure is the return across the three years to the company's financial year ending in 2007. This three-year figure is the total return a shareholder would have enjoyed for the whole three-year period, rather than an average compound annual return across the three years.

How to compare pay and performance?

In analysing the graphs, it is important in some respects to allow for a lag. For instance, the short-term incentive component of the CEO's pay in 2007 could be expected to reflect the company's performance in 2006 and possibly earlier years.

A qualification to this proposition is required. This is because the typical short-term incentive plan for an ASX-listed company includes performance conditions that relate to matters other than share price and dividends. The performance measures are often related to 'internal' performance more than external measures like share price.

For example, it is possible that the performance measures might relate to a series of quantitative measures (earnings per share, return on equity, cost management, total operating margins, value of new business, occupational health and safety performance) and qualitative measures (performance relative to competitors and market conditions, stakeholder perspectives, personal leadership, effective teamwork at senior management levels and strategic positioning). Other companies may adopt targets linked to achieving a planned overhaul of the company that may in fact have a negative impact on the company's performance - at least in the short term.

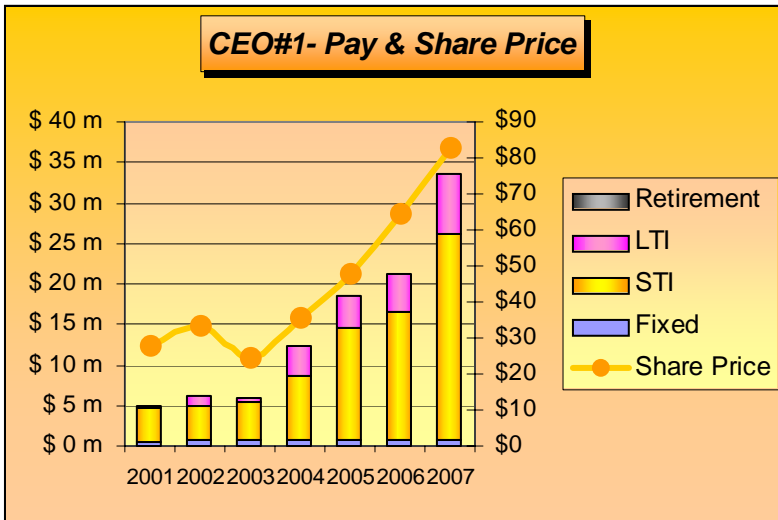
Thus, when looking at the graphs provided, the most appropriate measure of company performance against which the short-term incentive should be compared is the accounting measure of performance: return on assets (i.e. the second graph in each case). However, given that strong internal company performance should eventually be reflected in the company's external performance, it is useful to compare this measure of pay with share price performance and total shareholder return.

In regards to the fixed remuneration of a CEO, it might be expected that the level of fixed remuneration provided to a CEO in any given year reflects the performance of that CEO and the company in the prior year. While this might be reasonable to expect as a matter of principle, it should not be expected as a matter of practice. The 10 highest-paid CEOs receive in most cases very high levels of fixed remuneration and head 10 of the largest and most complex companies listed on the ASX. The levels of fixed remuneration of other CEOs in the sample usually reflect that the smaller or less complex a company may be, the lower the fixed remuneration of the CEO. Additionally, as discussed earlier, changes in fixed remuneration from year to year are also driven by factors such as benchmarking against the base salary of CEOs of peer companies.

As noted above, the LTI value included in these case studies is that reported by companies in annual reports; the actual value derived by a CEO from their LTI may bear little relationship to the disclosed value, which is based on accounting standard requirements. Past history suggests the actual value tends to be higher than the reported value, although the increased use of relative TSR hurdles over the past six years may mean that fewer CEOs are achieving the hurdles required for LTIs to vest. Where the LTI does not vest, the actual value received by a CEO from the LTI will be lower than the reported value.

The purpose of these 10 case studies is to provide some examples of the relationship between corporate performance and CEO remuneration in large Australian companies. These are case studies and are not intended to be comprehensive statistical studies. As a general observation, the pay of the top five CEOs is dominated by cash rather than equity. It is also important to note that in many cases, the performance of the companies with the 10 highest paid CEOs in 2007 has decreased sharply since the end of their 2007 financial years. In two cases - those of AGL Energy and Babcock & Brown - the decline in performance resulted in these CEOs being removed, yet again indicating that high payments to CEOs, including 'performance pay' are not necessarily related to sustainable returns to shareholders.

5.1 CEO#1: Allan Moss' Remuneration & Performance Analysis

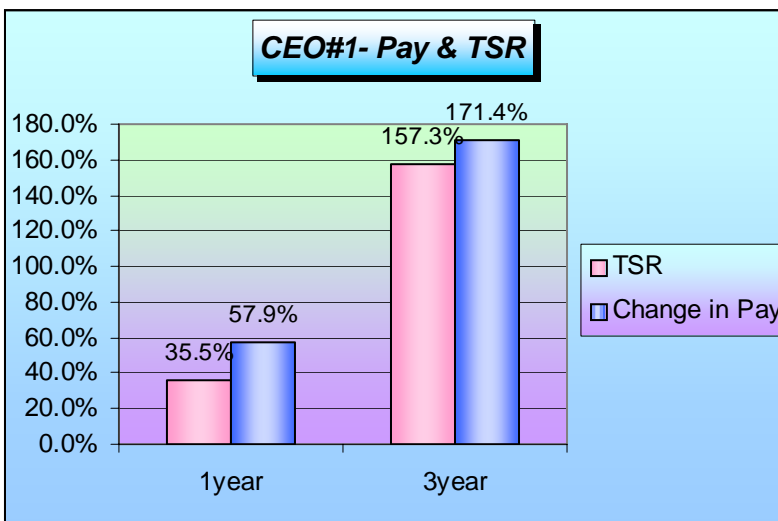
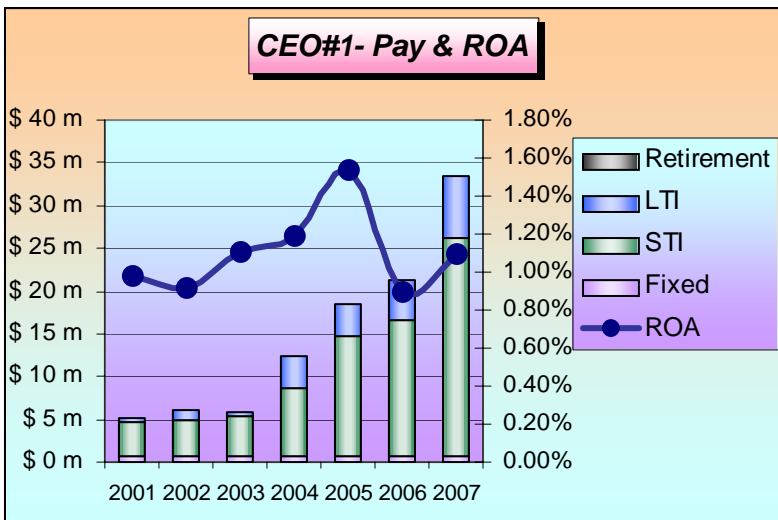


**Performance:**

In the period under review (to 31 March 2007) Macquarie Group's share price continued to perform extremely strongly. ROA returned to the trend of strong growth in 2007 after its decline in 2006. The TSR figures indicate Macquarie has delivered significant returns to shareholders, with one-year and three-year TSR being 35.5 percent and 157.3 percent respectively.

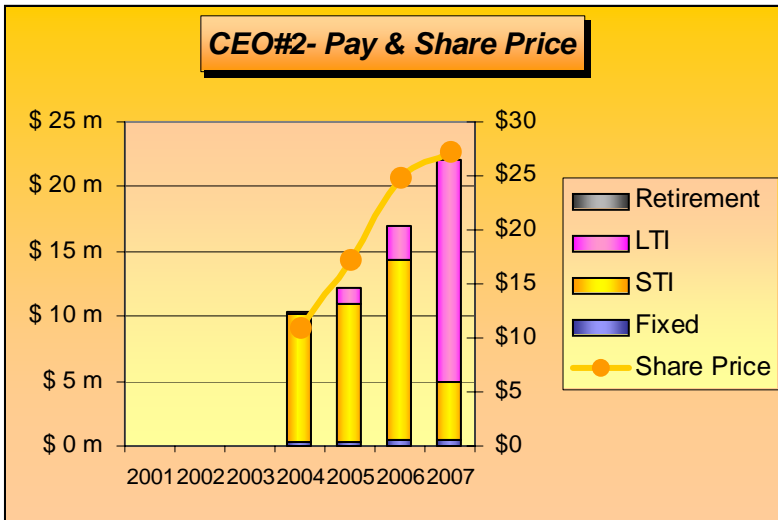
**Pay:**

Total remuneration increased substantially from 2006 to 2007, growing 57.9 percent and the three-year change in total pay was 171.4 percent, only slightly higher than TSR over three years. Growth in the STI component of the CEO's pay has been the main driver of Moss's overall increase in total remuneration. Macquarie's STI scheme is a profit-share scheme. The company's disclosure of how the bonus pool is arrived at – through a formula relating to net profit after tax and earnings above cost of capital – is better than many companies; however, the actual size of the bonus pool is not disclosed, nor are the levels of required profit performance. Additionally, much of Moss' LTI is actually a deferred component of the STI, and as such is assessed on the same unknown short-term measures.





5.2 CEO#2: Phillip Green's Remuneration & Performance Analysis

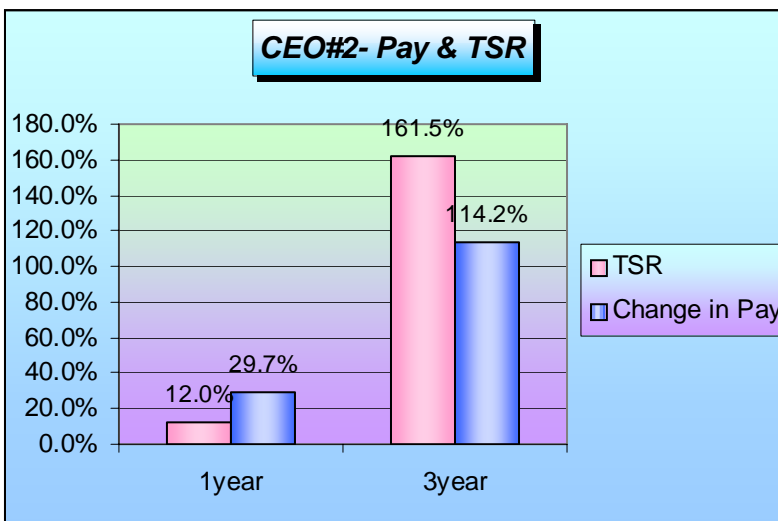
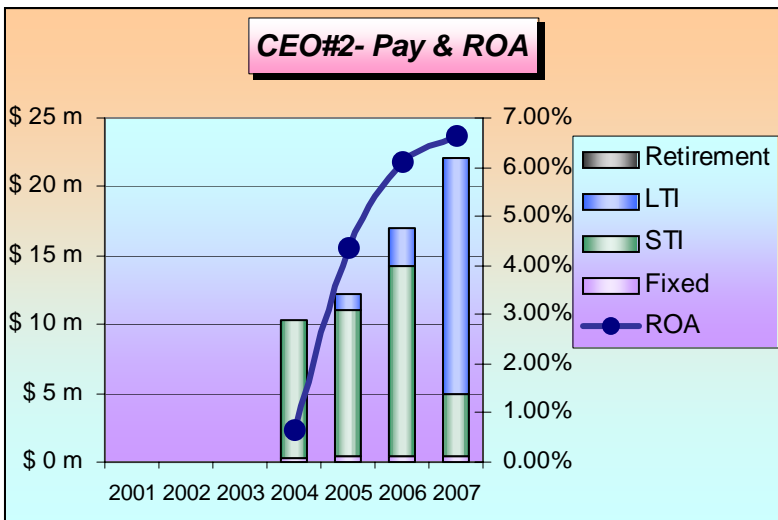


**Performance:**

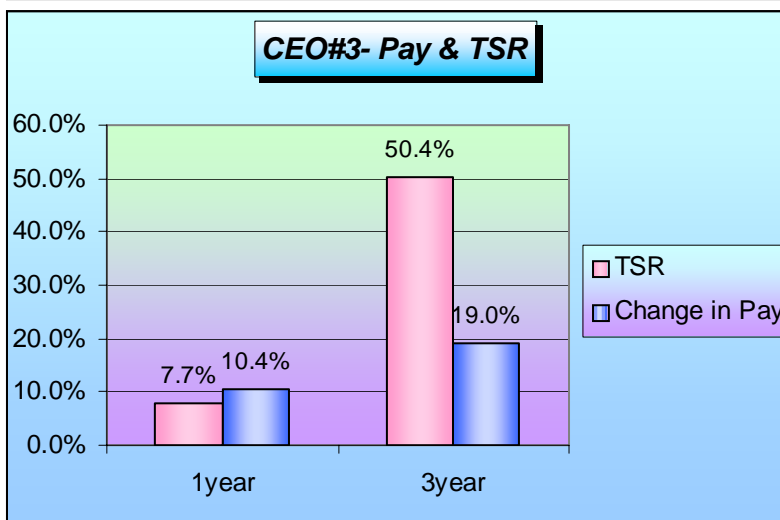
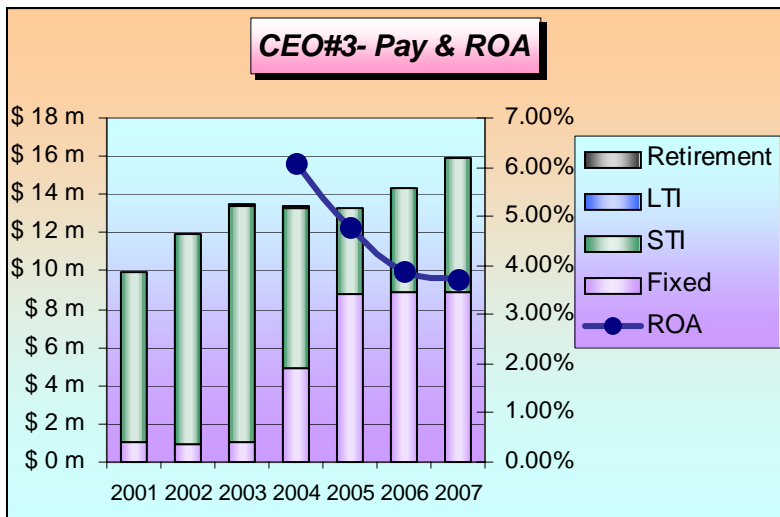
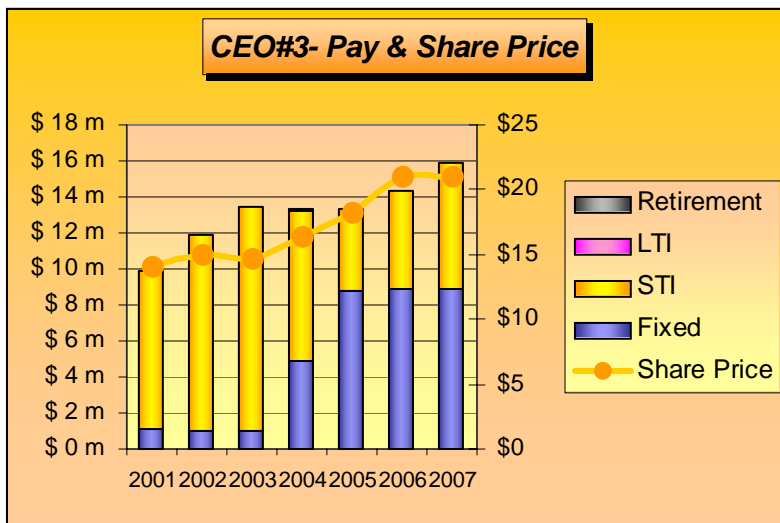
The Babcock & Brown share price increased strongly from its listing in late 2004 until mid 2007, although it began to decline in the period to 31 December 2007 (a decline that accelerated in 2008). ROA also increased significantly during this period, although at decreasing rates. TSR over the period to 31 December 2007 was also outstanding, with Babcock & Brown delivering 114.2 percent in TSR over the three years to 31 December 2007.

**Pay:**

Green's remuneration, like that of Moss of Macquarie Group, was heavily based on an annual bonus. In Babcock & Brown's case however the bulk of the annual bonus for 2007 was paid as deferred equity and therefore treated as an LTI for the purposes of this study. This was described by the company as being intended to increase the alignment of executives with shareholders following the steep decline in the company's share price after 31 December 2007 (a decline that culminated in Green's removal as CEO). Although Green's remuneration increased at almost the same rate as company share price performance since listing in 2004, this increase was off a high base. Between 2006 and 2007, Mr Green's pay increased by 29.7 percent. The majority of Green's remuneration is performance-related although the recent crisis that has engulfed Babcock & Brown starkly illustrates that bonuses based on performance over one year may not reflect sustainable long term performance.



5.3 CEO#3: Frank Lowy's Remuneration & Performance Analysis



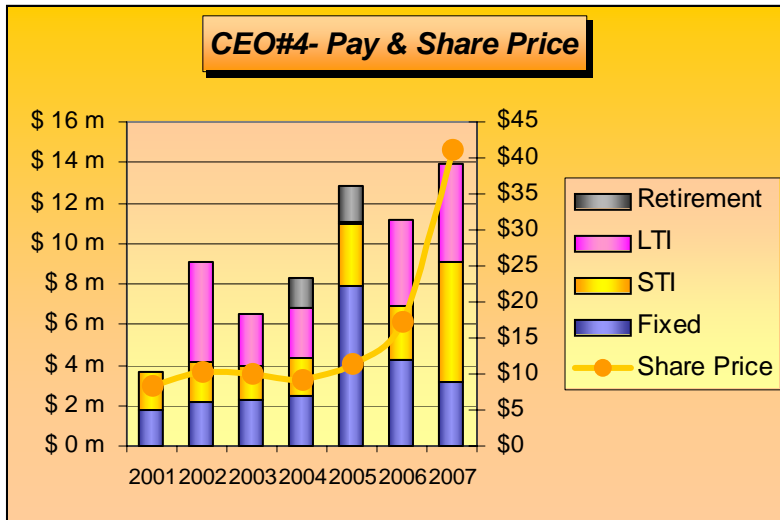
**Performance:**

The price of Westfield securities has increased relatively slowly over the period from \$14 in 2001 to \$21 in 2007 (Westfield Holding's share price is used for the period from 2000 to 2004, when Westfield Holdings was merged with the two listed property trusts to form Westfield Group). The TSR figures are comparatively lower than other ASX companies with very highly paid CEOs over the past one- and three-year periods.

**Pay:**

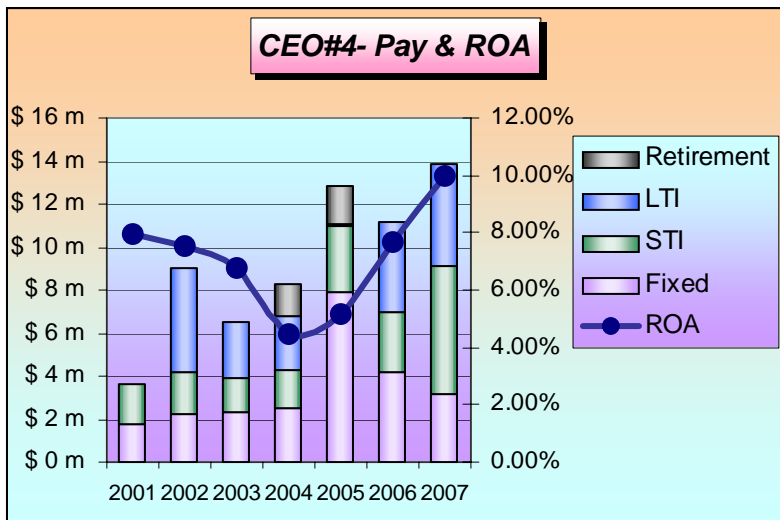
Lowy's remuneration formerly involved cash bonuses based on net profit after tax, which between 2000 and 2003 accounted for at least 89 percent of his total remuneration. However, in 2005 his pay package was re-negotiated, which saw a large increase in fixed remuneration and a corresponding decrease in STI. These changes had no impact on his overall pay – the quantum of Lowy's total pay has been extremely large over the whole period relative to nearly all other Australian CEOs and has been very stable, increasing or decreasing minimally (relatively speaking) from year to year. This lack of change in his overall remuneration means that in periods of increasing security prices, his pay does not keep pace with returns to investors and vice versa.

5.4 CEO#4: Wal King's Remuneration & Performance Analysis



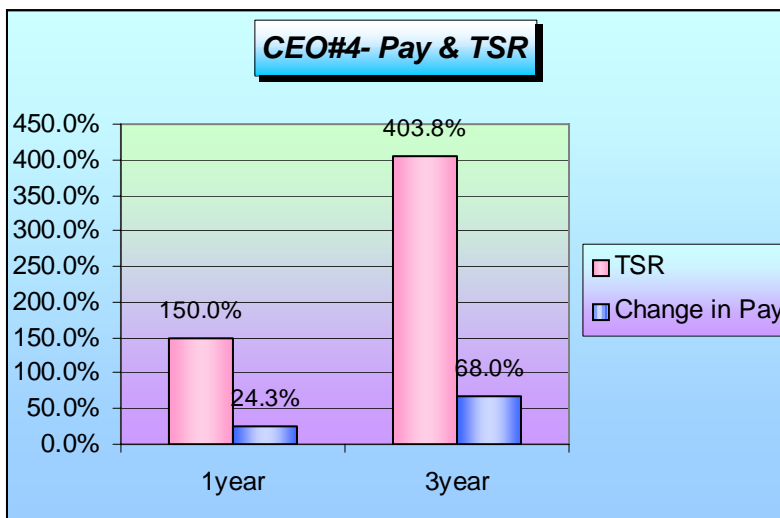
**Performance:**

Despite some declines during the 2003 and 2004 financial years, Leighton Holdings' share price has been increasing steadily over the seven year period from 2001, particularly from 2006 to 2007, when the share price more than doubled, from \$17 to over \$41. In line with share-price performance, ROA has increased significantly since 2004, after experiencing declines in prior years. This is potentially due to Leighton's business being project-based, with substantial benefits often not realised until after the completion of major projects. Both one-year and three-year TSR figures are exceptional, with Leighton Holdings achieving 150 percent and 403.8 percent respectively.

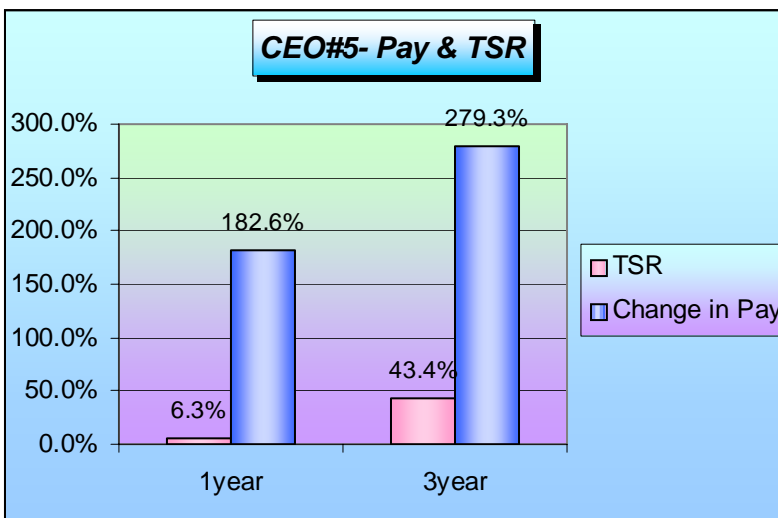
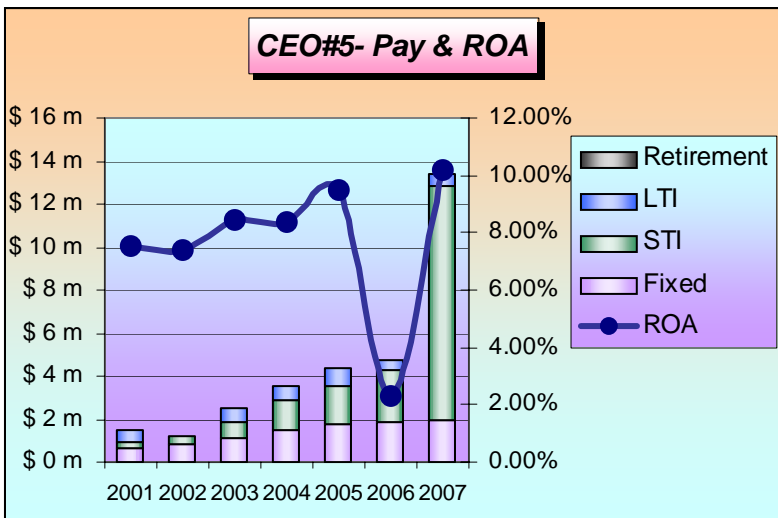
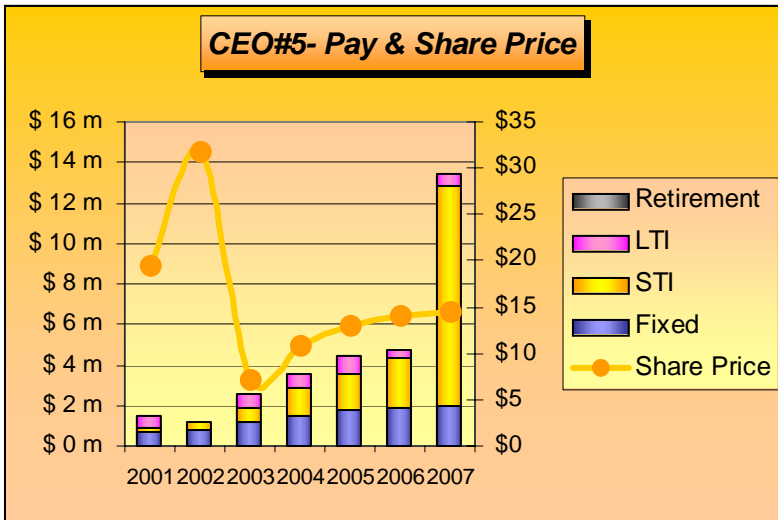


**Pay:**

In 2007, King's remuneration increased by 24.3 percent, however, it should be noted that his total pay decreased by more than 13 percent in 2006 relative to 2005. This was primarily due to the inclusion of a new long-term incentive scheme and the absence, in 2006, of retirement benefits – which had comprised a material part of Mr King's pay in 2004 and 2005 (earnings on these accrued benefits accounted for \$2.1 million or 16.1 percent of Mr King's total pay in 2005). In late 2005, King negotiated a new agreement which restructured his pay package, reducing his annual fixed remuneration component, and adding a new long-term incentive plan and an overall remuneration cap. His contract was amended again in August 2007 with the overall remuneration cap being removed (his remuneration for the 2008 financial year had not yet been released as at the date this report was completed). Although King's pay has grown at a lower rate than TSR, it should be noted that King's remuneration continues to consist almost entirely of cash payments rather than equity – even his long-term incentives are cash-based.



5.5 CEO#5: Paul Little's Remuneration & Performance Analysis



**Performance:**

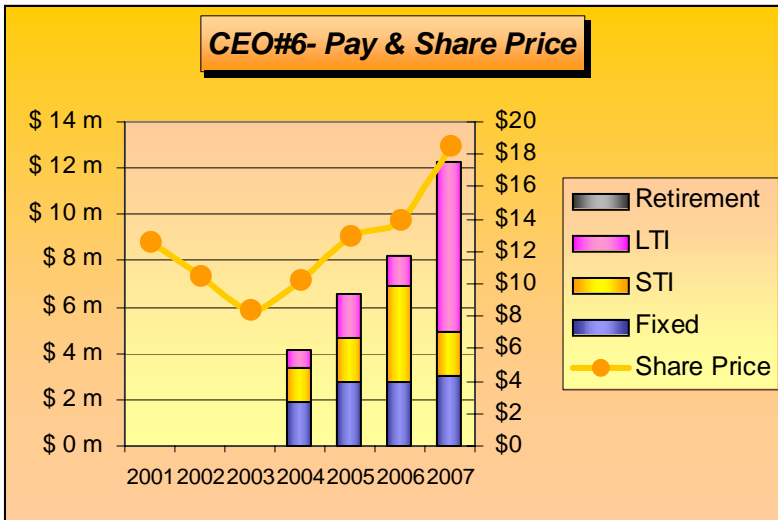
The performance of Toll Holdings has been consistently strong over the sample period (the dramatic drop in share price in 2003 was due to a one for four subdivision of capital approved in late 2002). The share price then grew steadily from just above \$7 in 2003 to \$14.5 by the end of June 2007. Toll Holdings' strong profitability is reflected by its high ROA during the seven year period. The dramatic decrease in ROA in 2006 was due to an almost six-fold increase in its assets on hand following the Patrick Corp. acquisition. TSR was 43.4 percent over the past three years, yet the one year TSR was 6.3 percent, just above inflation.<sup>6</sup> This was perhaps in part due to the spin-off of Asciano (the infrastructure holdings division of Toll) into a separately listed entity just prior to 30 June 2007, with Toll shareholders receiving a security in the new entity for each Toll share held. Asciano's security price performance has been extremely poor since it listed as a separate entity.

**Pay:**

Little's remuneration was relatively stable between 2001 and 2006, growing from above \$1.5 million to just below \$5 million. However, Little's pay increased significantly to over \$13 million, or by 182.6 percent, in 2007, after the board of Toll Holdings brought forward three years' worth of option grants that had been contingent on future performance and instead transformed them into a one-off cash payment contingent only on Little remaining employed until June 2008.

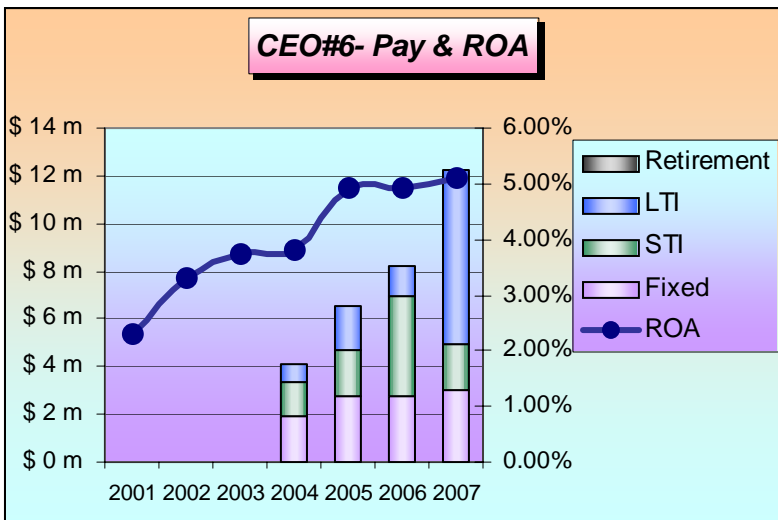
<sup>6</sup> Australian Bureau of Statistics; weighted average of eight capital cities, CPI index from 30 June 2006 to 30 June 2007. Please see [www.abs.gov.au](http://www.abs.gov.au) for additional information, catalogue number 6401.0.

5.6 CEO#6: Greg Clarke's Remuneration & Performance Analysis



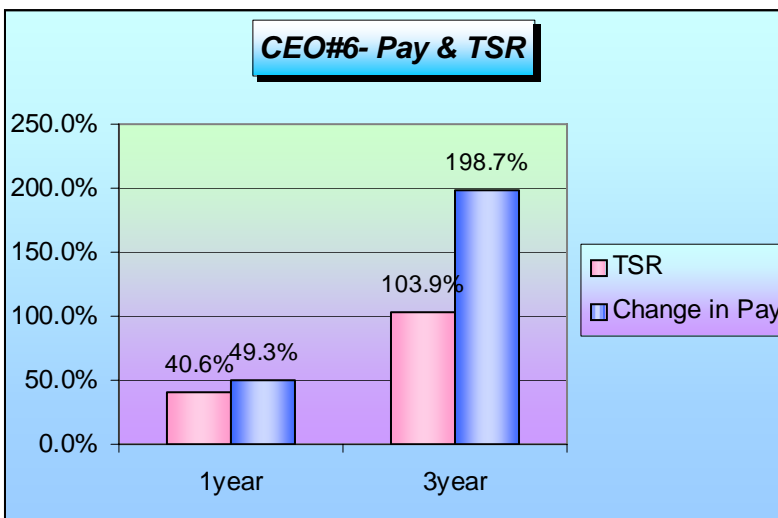
**Performance:**

The share-price performance of Lend Lease Corp. has improved strongly since 2003, increasing at an average rate of 22 percent per annum, after the declines between 2001 and 2003. Lend Lease Corp. saw a steady increase in its ROA in the early years of the period, but this has stabilised at around 5 percent since 2005. TSR performance has been strong over the three years to 2007, with one- and three-year TSR being 40.6 percent and 103.9 percent respectively.

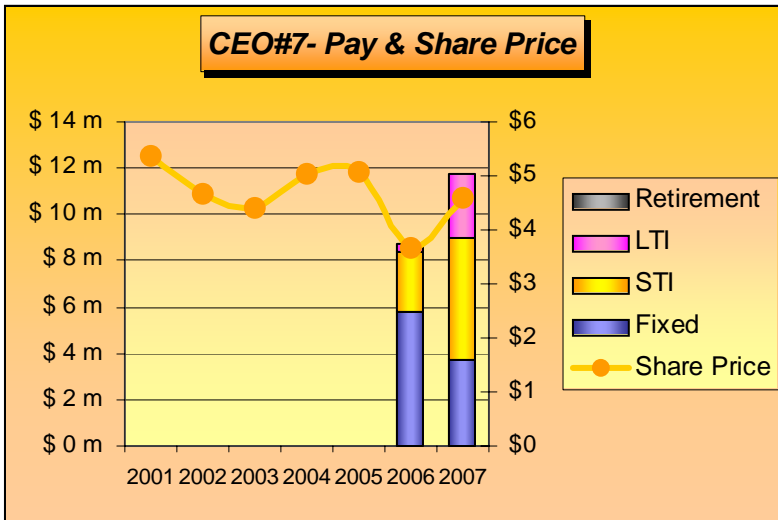


**Pay:**

Increases in Clarke's pay have outpaced Lend Lease Corp.'s TSR since he was appointed CEO in 2003, with total remuneration increasing by 198.7 percent over the past three years, almost double the increase in TSR over the period. In 2007, the growth in Clarke's pay was driven largely by increases in long-term incentives, which are entirely cash settled.

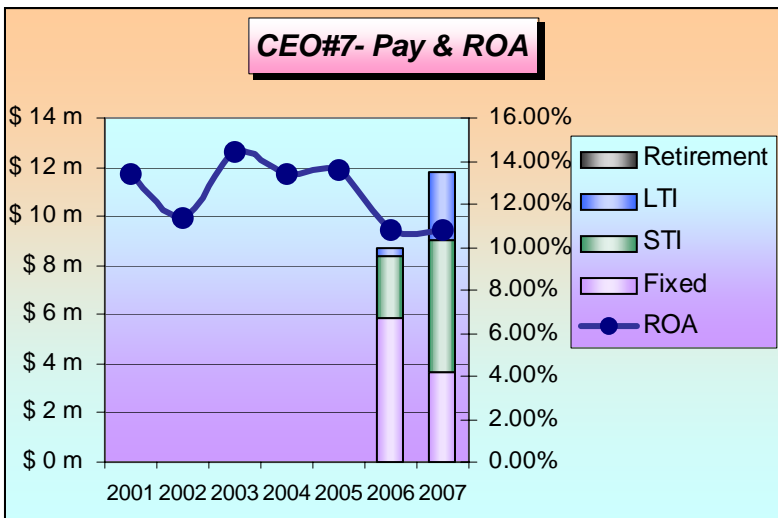


5.7 CEO#7: Solomon Trujillo's Remuneration & Performance Analysis



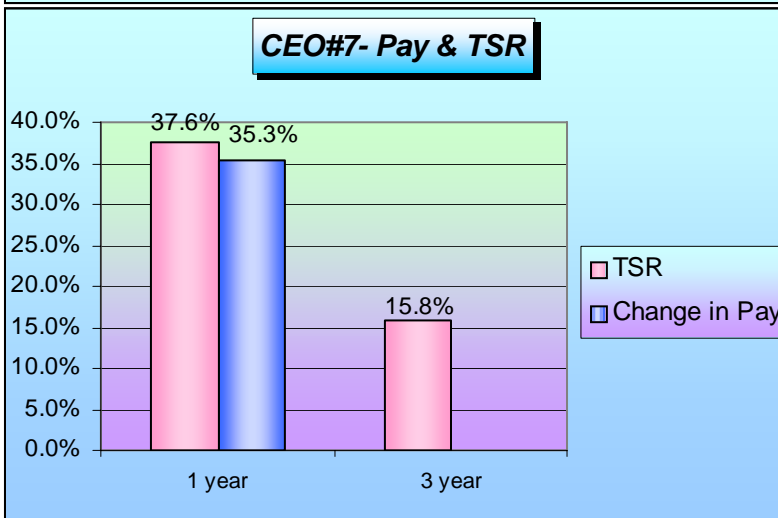
**Performance:**

Telstra's performance over the entire seven year period has been stagnant. Its share price has been generally flat over the period 2001 to 2007, albeit encompassing a sharp decline in 2006 and a recovery in 2007. ROA has followed a similar pattern, showing that there is a noticeable link between the two measures for Telstra. Since Trujillo became CEO, Telstra's share price has been volatile - the share price experienced a 27.3 percent decrease in 2006 followed by a 24.7 percent increase in 2007. The company's TSR performance significantly improved in 2007, with the one year TSR being 37.6 percent, up from negative 20.0 percent a year earlier.

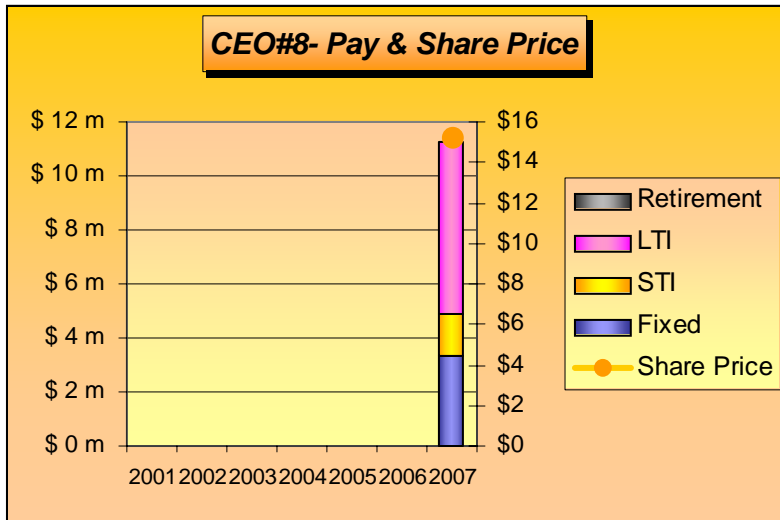


**Pay:**

As Trujillo had been CEO for only two years as at 30 June 2007, the figure on the rate of increase in his remuneration for a three year period is not provided. Over the 2007 year, the increase in Trujillo's pay matched the increase in TSR, although the Telstra share price during 2007 had still not recovered to the levels it was trading at prior to Trujillo's appointment.



5.8 CEO#8: Paul Anthony's Remuneration & Performance Analysis



**Performance:**

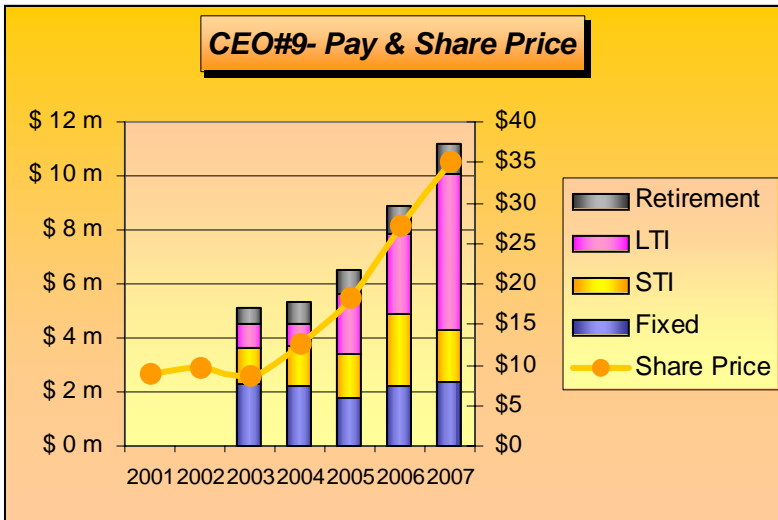
Given AGL Energy was formed in late 2006, after the completion of Australian Gas Light and Alinta asset exchange, its share price is not comparable to that of neither Australian Gas Light nor Alinta. No historical performance measures as at financial year end are available prior to 30 June 2007.

**Pay:**

Anthony's remuneration, which comprised 56.5 percent equity in 2007, is in contrast to the general patterns of many of the Top 10 CEOs in these case studies, and to the general trend in executive pay at other Top 100 companies, where cash payments have been the major components of remuneration. It is also important to note that Anthony was terminated by AGL Energy shortly after the end of the 2007 financial year following an unexpected profit downgrade.

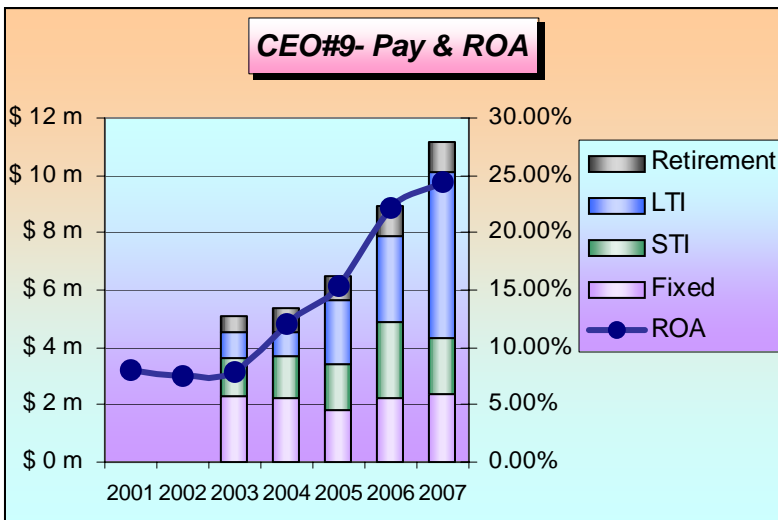


5.9 CEO#9: Charles Goodyear's Remuneration & Performance Analysis



**Performance:**

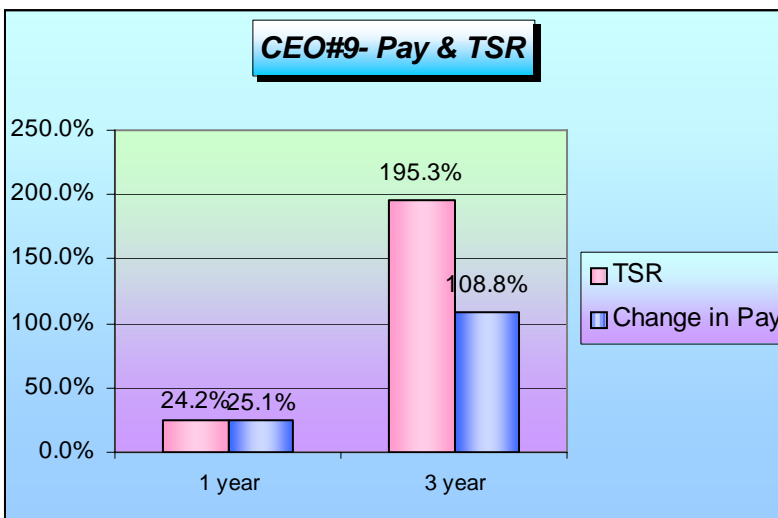
BHP Billiton's share price performance has been excellent since 2003 – the year Mr Goodyear was appointed CEO (in 2002 he was CDO). The share price rose dramatically between 2003 and 2007, after the decline in 2002. Once again, the ROA measure shows high correlation with the share price performance, showing a sharply increasing trend. The TSR figures also reflect BHP's strong performance during the commodities boom, with the three-year TSR being 195.3 percent.



**Pay:**

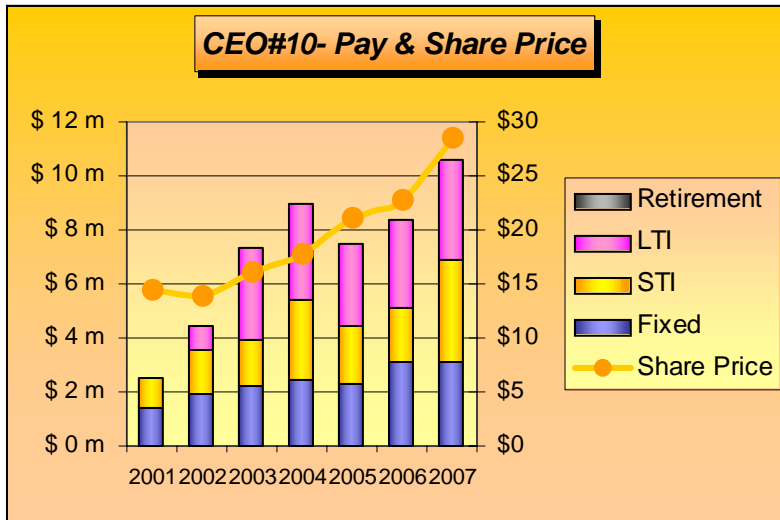
Goodyear's remuneration has grown steadily since 2003, though slower than returns to shareholders. The growth in Goodyear's total pay was 108.8 percent between 2004 and 2007, compared to TSR performance of 195.3 percent.

The growth in Goodyear's total remuneration was driven largely by increases in long-term incentives and retirement benefits. The increases in long-term incentives – which are delivered in equity and subject to one of the most demanding relative TSR performance hurdles for an ASX-listed company – are in stark contrast to the general remuneration patterns of many of the top 10 CEOs in these case studies, and to the general trend in executive remuneration at other Top 100 companies, where cash components of remuneration have been growing at a much faster rate than equity allocations. Goodyear retired as CEO on 30 September 2007.



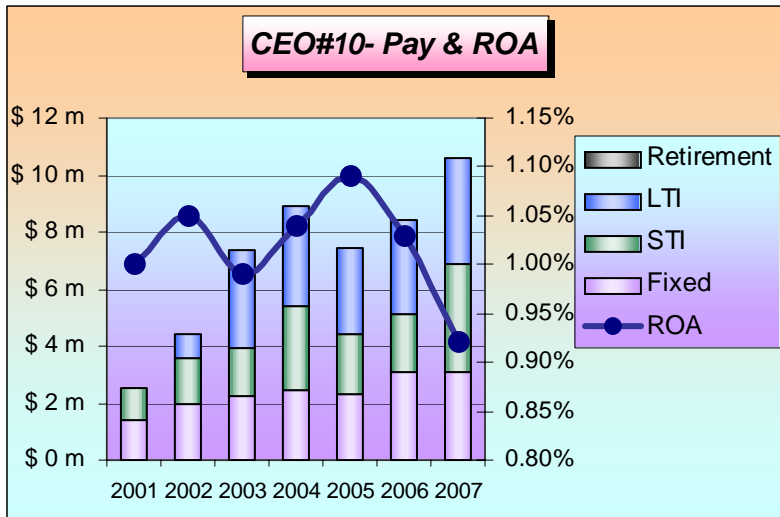


5.10 CEO#10: David Morgan's Remuneration & Performance Analysis



**Performance:**

Westpac continued to perform solidly in 2007 on each of the selected performance measures. The share price has increased steadily over the performance period from over \$13 in 2001 to above \$28 by 30 September 2007. ROA has varied within a very small range of 0.99 percent to 1.02 percent during the period. TSR has been modest relative to other companies with very highly paid CEOs over the past one and three years, with returns amounting to 34.9 percent and 85.4 percent respectively, although Westpac's performance has been relatively strong after 30 September 2007 (despite a decline in its share price).



**Pay:**

Morgan's remuneration increased over the sample period 2001 to 2007, although it has decreased from the peak achieved in 2004. The decrease is due to declines in incentive pay while fixed pay has remained reasonably constant. In 2007, Morgan's pay comprised even proportions of fixed remuneration, short- and long-term incentives.

Despite the solid performance of the company, the increase in Morgan's remuneration was relatively small compared to Westpac's three year TSR. Morgan retired early in 2008.

