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ASX200 Boards Respond to Investors on CEO Pay

Vigilance from investors and boards saw average CEO fixed pay in the Top 100 companies fall for only the second time in 11 years, according to new research from the Australian Council of Super Investors (ACSI). This result indicates that a higher level of investor scrutiny since the global financial crisis, combined with the introduction of the 'two strikes' rule, have had an influence on remuneration outcomes.

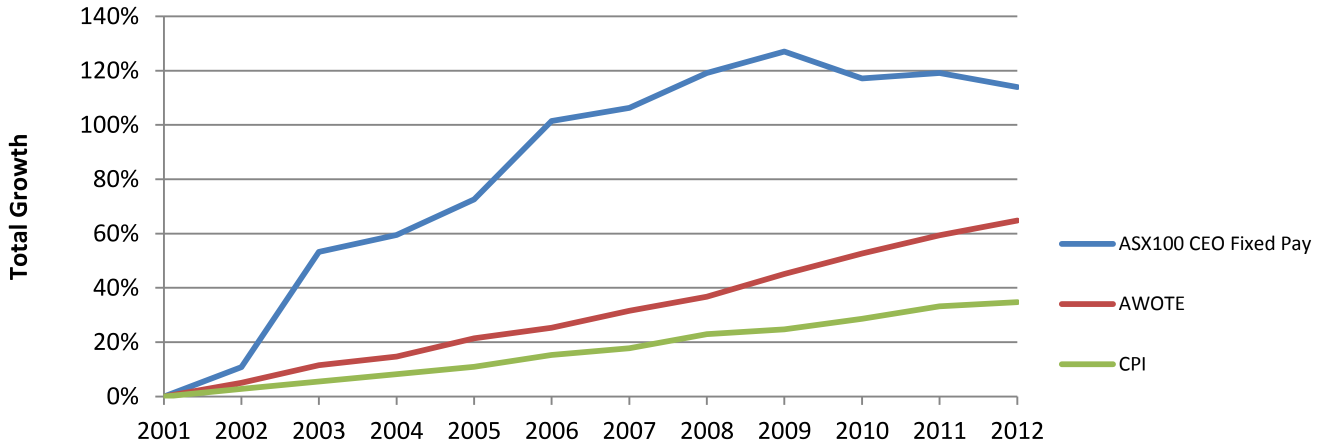
The 2012 CEO pay study, ACSI's 12th annual review of CEO pay in Australia's largest listed companies, found the decline in average fixed pay capped a five year period where average fixed pay for S&P/ASX 100 CEOs has risen by less than inflation and average weekly ordinary earnings. The study continues to provide an extremely detailed longitudinal review of CEO pay across the S&P/ASX200.

ACSI CEO Ann Byrne commented that 'the decline in fixed pay of ASX100 CEOs shows that the market is responding to shareholder concerns over continual pay increases. It should be recognised that boards are increasingly taking a lead on these issues and responding to shareholder expectations.'

'One reason for the drop in fixed pay is that we have seen many boards reviewing remuneration packages when they hire new CEOs, often bringing them back in line with market expectations. This is a welcome trend and one which investors would like to continue.' Ms Byrne said.

Between 2007 and 2012, the average fixed pay of Top 100 CEOs rose 3.7% compared to aggregated 14.5% increase in inflation over the same period, and average weekly ordinary time earnings by 25.3%. ACSI's research shows that average CEO fixed pay over the 10 years to 2012 however increased almost three times as fast as inflation and nearly 70% faster than wages growth.

Total growth in ASX100 CEO fixed pay relative to AWOTE and CPI[1]



[1]Data is indexed from 2001 to show total growth over time. *ASX100 CEO Fixed Pay*: Average ASX100 CEO Pay (Report p51). *AWOTE*: Average Weekly Ordinary Time Earnings (full-time adult ordinary time earnings), using ABS data as at May each year. *CPI*: Consumer Price Index, which measures the increase in prices of Australian consumer goods (inflation), using ABS data as at June each year.

acsi
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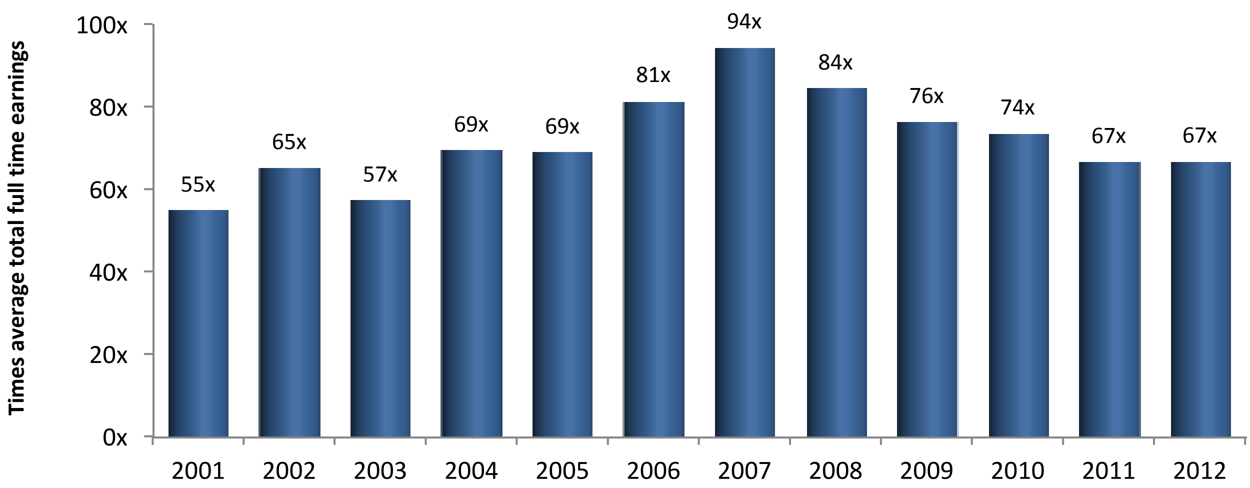
The 2.4% decline in average fixed pay for Top100 CEOs to $1.9 million in 2012, masked the fifth consecutive increase in median fixed pay, which rose by 2% to $1.95 million. This indicates that fewer CEOs of Top 100 companies have levels of fixed pay which are very high relative to their peers.

While still a significant multiple, results from this year's study indicate that the fixed pay of CEOs has reduced relative to average earnings:

How many times more do ASX100 CEOs earn over the national average?



Source: ACSI, *CEO Pay in the Top 200 companies 2012 (Total statutory pay for ASX100 CEOs)*. ABS, full-time total earnings data.

Decline in the number of CEOs receiving an annual bonus

In 2012 fewer Top 100 CEOs received bonuses than in any year since 2003, with 18% of CEOs receiving no bonus.

Among CEOs who did receive a bonus, the average rose 4.8% to $1.32 million although this was largely due to the inclusion of Westfield's co-CEOs in the sample. The median bonus for a Top 100 CEO declined for the third consecutive year to $1.06 million, down 3.5% on 2011 and 22% on the 2007 peak.

Proportion of Top 100 CEO's who did not receive an annual bonus:

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
25%	20.5%	9.5%	10%	5.4%	11.6%	7.1%	17.6%	10%	12%	18%

The CEO of ACSI, Ann Byrne, said the decline in bonuses and the low rate of growth in CEO fixed pay in Top 100 companies were a testament to investor vigilance in recent years. 'Dialogue between investors and directors is resulting in boards getting the message on pay - it even seems that annual bonuses are becoming more at risk.' she said.

Looking beyond the Top 100

The restraint in Top 100 CEO fixed pay was not matched by companies ranked 101-200 in the S&P/ASX 200 where average CEO fixed pay rose 4.7% in 2012 to $974,000. There was however a decline in average and median bonuses for the CEOs of companies ranked 101-200. The average bonus in 2012 for ASX101-200 CEO was $402,000, down 4.6% on 2011 figures.

Highest and Lowest Paid CEOs

The highest paid CEO in the sample on a statutory basis were Westfield's co-CEOs, Peter & Steven Lowy whose collective statutory pay was $21.08 million and whose realised pay was $19.34 million. The CEOs of ANZ (Mike Smith), Westpac (Gail Kelly) and BHP (Marius Kloppers) also enjoyed substantially higher realised pay relative to disclosed pay, with Smith realising $19.17 million relative to disclosed pay of $9.67 million. The research includes detailed case studies of these individual pay outcomes, including information on the lowest paid CEOs in the Top 100 and ASX 200. Each case study includes information on pay outcomes relative to company performance.

Termination Payments

Although they remain large, termination payments were smaller in aggregate than in three of the past four years and well below the aggregate in 2011.

'These results indicate that large termination payments, or golden parachutes, have significantly reduced in recent years. Shareholders have been sending a clear message on this issue through the vote on entitlements above one year's fixed pay' said Ms Byrne. 'ACSI's view is that the shareholder vote on termination benefits has been a sensible market based reform. In response to vote and investor expectations, boards have brought contractual terms back in line with market expectations.'

The average termination payment to a departed CEO in the Top 100 sample in 2012 was $1.47 million, half the 2011 average of $2.92 million (although the 2011 average included the $10.9 million payment to Leighton Holdings' former CEO Wal King). The largest payment in 2012 was to QBE's Frank O'Halloran, who received a termination payment of $4.574 million.

Realised Versus Reported Pay

ACSI's 2012 CEO pay study compares the statutory and realised pay of the highest and lowest paid CEOs in both the Top 100, and Companies ranked ASX101-200. This is an important comparison as statutory pay reflects remuneration report disclosures, whereas realised pay takes into account the value of equity that vested during the year.

The largest gap between statutory and realised pay among the 40 companies reviewed was at Regis Resources, where CEO Mark Clark reaped total proceeds of $16.46 million from option sales and his salary relative to disclosed pay of $541,000. This reflected an increase in the share price of Regis from $0.51 at the end of 2009, when Clark became CEO, to $3.91 at the end of 2012.

As in 2011, the study found that while there were significant differences between statutory and realised pay for individual CEOs, across the group statutory and realised pay were relatively close. For example, among the 10 highest paid CEOs in the Top 100 on a statutory basis, average statutory pay in 2012 was $10.11 million marginally lower than average realised pay $10.23 million.

Research Methodology

The research piece has been commissioned by ACSI and undertaken by Ownership Matters. The research sample is based on CEOs of companies in the S&P/ASX 200 as at 30 June 2012 and financial years ending in 2012. CEOs not in office for the full year are excluded from the sample and CEOs who received no bonus are excluded in calculating median bonus figures. The value of realised pay is calculated for zero exercise price options by observing the share price at the date of vesting (plus dividend payments if applicable) and for options it is calculated as the value at the date of exercise or sale.

<u>For further comment or information please contact:</u>

Ann Byrne
Chief Executive Officer
Australian Council of Superannuation Investors
Phone: +61 (0)3 8677 3895
Mobile: +61 041 866 5521
Email: abyrne@acsi.org.au