Australian Council of Super Investors Inc.

Board Composition and Non-Executive Director Pay in the Top 100 Companies: 2007

Research Paper prepared by

ISS Governance Services

RiskMetrics Group
The Center of the Financial Community

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1 ISS Governance Services, RiskMetrics Group

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In June 2005, ISS acquired Australia's leading 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 and Japan.

2 Executive Summary

ISS Australia was commissioned by the Australian Council of Super Investors (ACSI) to conduct an empirical analysis of several key corporate governance features in the Top 100 listed Australian companies for the 2007 financial year. This paper reports the findings of the study, which drew on data contained in S&P/ASX 100 companies' most recent annual reports. For the majority of companies, this was the annual report for the financial year ended 30 June 2007. For the remaining companies, the annual reports are mostly for the year ended 31 March 2007, September 2007 or 31 December 2007.

The study revisits issues researched for ACSI over the period 2001 to 2006[1] and for the Conference of Major Superannuation Funds for the 2000 financial year.[2] Comparative statistics are provided.

The two major conclusions that can be drawn from the 2007 study are firstly that 'appointments from within' continue to dominate new director appointments at S&P/ASX 100 companies post-2005 and that the proportion of board seats held by women at the Top 100 companies remains stuck at around 11 to 12 percent of the total.

In 2007, 106 individuals were appointed non-executive directors of an S&P/ASX 100 company; of these, 58 already held or had in the past held an S&P/ASX 100 company directorship. This is down slightly from 2006, when 94 of the 134 new appointees were past or present S&P/ASX 100 company directors and 2005, when past or present S&P/ASX 100 directors made up 85 of the 134 new appointees. In 2004, 25 of the 94 new appointees were past or present S&P/ASX 100 company directors.

In 2007, women accounted for 12.4 percent of all directorships at S&P/ASX 100 companies and 10.4 percent of all directors, down from 12.6 percent and 22 percent in 2006. The proportion of board seats held by women has remained largely unchanged since 2003, while the proportion of non-executive directors who are women has also remained largely unchanged since 2002 (between 9 and 11 percent of all directors of S&P/ASX 100 companies). In the S&P/ASX 100, 22 companies had no women on the board in 2007.

The continuation of boards' propensity to 'appoint from within' the pool of existing directors was also reflected in the number of S&P/ASX 100 company directors holding multiple board seats within the Top 100. This trend has grown steadily since 2001, when 72 professional NEDs held 164 board seats (30.6 percent of all S&P/ASX 100 company board seats). In 2007, 114 professional NEDs held 262 board seats (43.4 percent of all non-executive board seats), a 1.6 percent decrease from 2006, when 123 professional NEDs accounted for 45.1 percent of all Top 100 non-executive board seats. The average female director remains more likely than the average male director to hold two or more S&P/ASX 100 board seats. Of the 62 women on S&P/ASX 100 company boards, 38 (61.3 percent) held more than one board seat at an ASX-listed company, compared to 42.2 percent of male S&P/ASX 100 directors.

The study also reiterates that boards remain elderly and male: The most common age band for non-executive directors is 60 to 69. This reflects the fact that retired former executives make up the largest proportion of non-executive directors serving on S&P/ASX 100 boards. Separate research by ISS found that in 2006, 50 percent of S&P/ASX 200 non-executive directors were retired former corporate executives (the vast majority had not held an executive position at the company on whose board they now sit as a non-executive director; their executive careers were with other companies). In 2007, male non-executive directors were on average 7 years older than their female

[1] ISS Australia, *Board Composition and Non-Executive Director Pay in the Top 100 Companies: 2006 (Research Paper prepared by ISS Proxy Australia for ACSI, August 2007);* ISS Australia, *Board Composition and Non-Executive Director Pay in the Top 100 Companies: 2005 (Research Paper prepared by ISS Proxy Australia for ACSI, July 2006);* ISS Proxy Australia, *Board Composition and Non-Executive Director Pay in the Top 100 Companies: 2004 (Research Paper prepared by ISS Proxy Australia for ACSI, September 2005);* IA Research, *Board Composition and Non-Executive Director Pay in the Top 100 Companies: 2003* (Research Paper prepared by IA Research for ACSI, May 2004); Institutional Analysis, *Board Composition and Non-Executive Director Pay in the Top 100 Companies: 2002* (Research Paper prepared by Institutional Analysis for ACSI, May 2003); Institutional Analysis, *Board Composition and Pay in the Top 100 Companies: 2001* (Research Paper prepared by Institutional Analysis for ACSI, January 2002).

[2] Institutional Analysis, *Board Composition and Pay in the Top 100 Companies* (Paper presented to the CMSF Conference, March 2001).

counterparts, and male executive directors were on average 0.3 years older than their female counterparts.

The relative age of non-executive directors is not however matched by long tenure in many cases. The average tenure of a non-executive director in the sample was 5.1 years and the median 3.6, compared with an average tenure of 6.9 years (and a median of 5.1 years) for executive directors. This raises potential issues about the ability of non-executive directors to adequately oversee long serving and established executives.

This year's study revealed continuing stability in the proportion of board seats held in S&P/ASX 100 companies by independent directors. In 2006, independent directors accounted for 64.5 percent of all Top 100 directorships; in 2007, this figure has increased marginally to 65.5 percent of all directorships. The proportion of non-executive directorships (compared to executive positions) increased insubstantially from 80.2 percent in 2006 to 81.2 percent in 2007.

Non-executive director pay continued to increase, although seemingly at less rapid levels than recent increases in CEO pay (the ACSI Longitudinal Study for CEO pay for the 2006 year found CEO fixed pay at S&P/ASX 100 companies has more than doubled over the past five years). In 2007, the average non-executive director (excluding the chairperson) received $174,296, an increase of 7.4 percent from 2006 (NED pay grew by 7.1 percent between 2004 and 2005). Non-executive chairperson remuneration has also continued to increase, although at more modest levels: The average S&P/ASX 100 non-executive chairperson saw their remuneration increase 4.6 percent in 2007 to $390,142, which was 2.5 percent higher than in 2006. The rate of increase in remuneration for non-executive directors however again outstripped inflation, which rose by 2.1 percent over the 12 months to 30 June 2007,[3] and growth in average weekly adult earnings, which grew by 4.5 percent between May 2006 and May 2007.[4]

[3] Australian Bureau of Statistics, *Key National Indicators: Consumer Price Index*, http://www.abs.gov.au/AUSSTATS?abs@nsf/allprimarymainfeatures/0DECB9F37737E66FCA25737D00222523?opendocument as at 23 July 2008.
[4] Australian Bureau of Statistics, *Key National Indicators: Labour Price Index*, http://www.abs.gov.au/AUSSTATS/abs@.nsf/allprimarymainfeatures/F754DF9FB0799331CA2573930012EB47?opendocument as at 23 July 2008.

3 Board Composition

3.1 The sample

The first part of the research involved an analysis of the board composition of the Top 100 companies listed on the Australian Stock Exchange.

The Top 100 companies were ascertained by reference to their position in the S&P/ASX 100 Index at 30 June 2007.

The following criteria must have been met by a company to be included in the sample:

- the head office was located in Australia.

- the company was incorporated in an Australian State or Territory.[5]

- the company was a trading entity.

The resulting number of companies was 89. There were 93 companies in last year's study.

The data on board composition is based on board membership as disclosed by the relevant company in its annual report. In many cases this equates to the directors in office at the end of the company's reporting period, although in a number of cases the directors in office at the date of release of the annual report (which is typically several weeks after the end of the company's reporting period) is provided.

[5] As in prior years, the study does include listed externally-managed infrastructure vehicles which incorporate in their structure a company and an Australian trust. The boards of the companies in the three such entities included in this sample – Macquarie Infrastructure Group, Macquarie Airports and Macquarie Communications Infrastructure Group (MCG) – are included rather than the boards of the responsible entities. The companies are however domiciled in Bermuda with the exception of MCG which has two company boards, one Australian and one Bermudan. It should also be noted that in the case of these companies, three-quarters of their boards are elected by Macquarie as the external manager under a 'special voting share', meaning securityholders elect only one director to each of these companies' boards.

3.2 Aggregate board statistics

The sample of 89 companies yielded the following:

- 597 individuals holding
- a total of 757 board seats (or 'directorships')

As in 2006, the average number of directors per company over the period was 8.5. The average board size in 2006 and 2007 is consistent with the longer-term trend, with the average board size having decreased from nine in 2000.

Board sizes ranged from a minimum of four to a maximum of 15 (the largest board in 2006 had 14 directors). The most common board size was nine directors, up from eight in 2006 and seven in 2005. A board with seven to nine directors is becoming increasingly common, with fewer outliers with large or small boards: 65.2 percent of companies in 2007 had a board size of between seven and nine whereas it was 58.1 percent in 2006 and 64.1 percent in 2006).

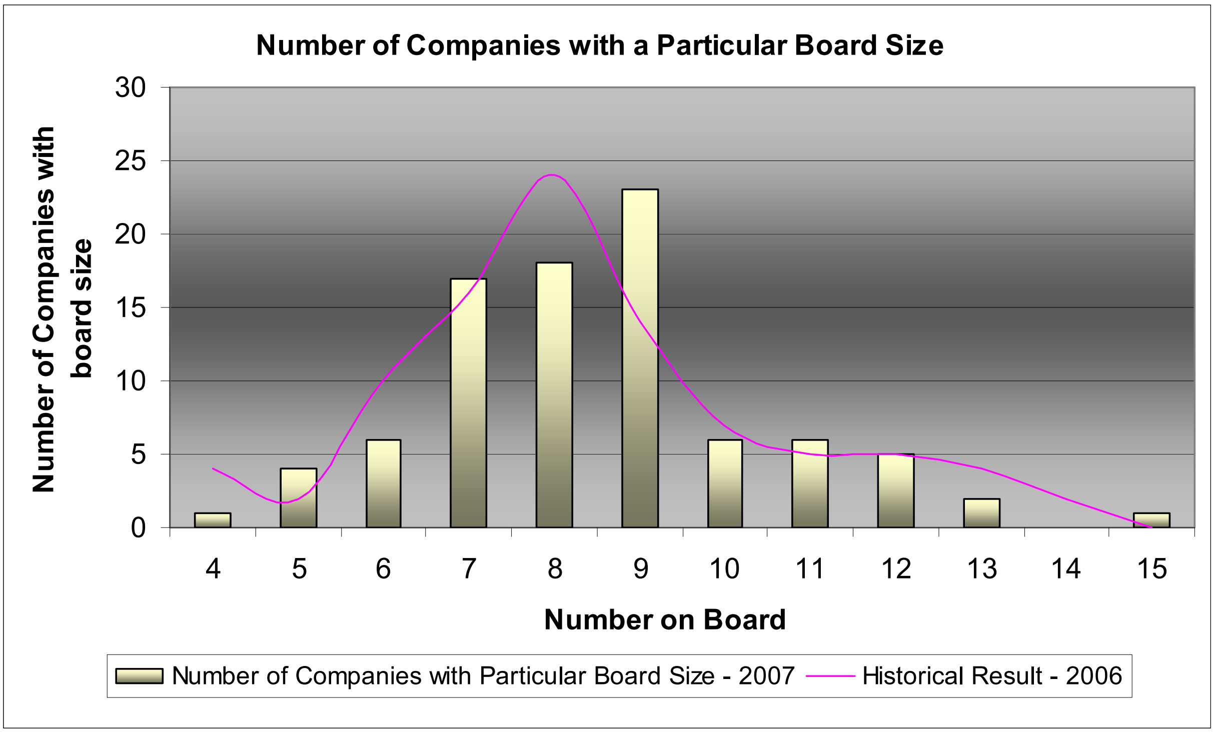

Figure 3.1. Board size distribution

3.3 Executive and non-executive directors

Most companies in the sample had either one or two executive directors present on the board (the Chief Executive Officer and another senior executive — often the Chief Financial Officer). The mean was 1.6 executive directors per company. Numbers ranged from a minimum of none to a maximum of six.[6]

The average board composition was 81.2 percent non-executive and 18.8 percent executive, largely unchanged from 2006, when the average board composition was 80.2 percent non-executive and 19.8 percent executive. The 2007 average board composition was identical to that in 2005; in 2004 it was 79.6 percent non-executive and 20.4 executive, in 2003 79 percent non-executive and 21 percent executive and in 2002, 77.4 percent non-executive and 22.6 executive.

The company with the lowest proportion of non-executive directors on its board had 37.5 percent non-executive directors and 62.5 percent executive directors (three non-executive directors, the CEO, the CFO and three additional executive directors). Three companies had no executive directors.[7]

Proportion of non-executives on company boards	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*
Average proportion	77.4%	79.0%	79.6%	81.2%	80.2%	81.2%
Minimum proportion	30.0% (3 of 10)	22.2% (2 of 9)	28.6% (2 of 7)	37.5% (3 of 8)	37.5% (3 of 8)	37.5% (3 of 8)
Maximum proportion	92.3% (12 of 13)	91.7% (11 of 12)	92.3% (12 of 13)	92.3% (12 of 13)	92.3% (12 of 13)	100% (9 of 9)

Table 3.1. Aggregate proportion of non-executives on boards

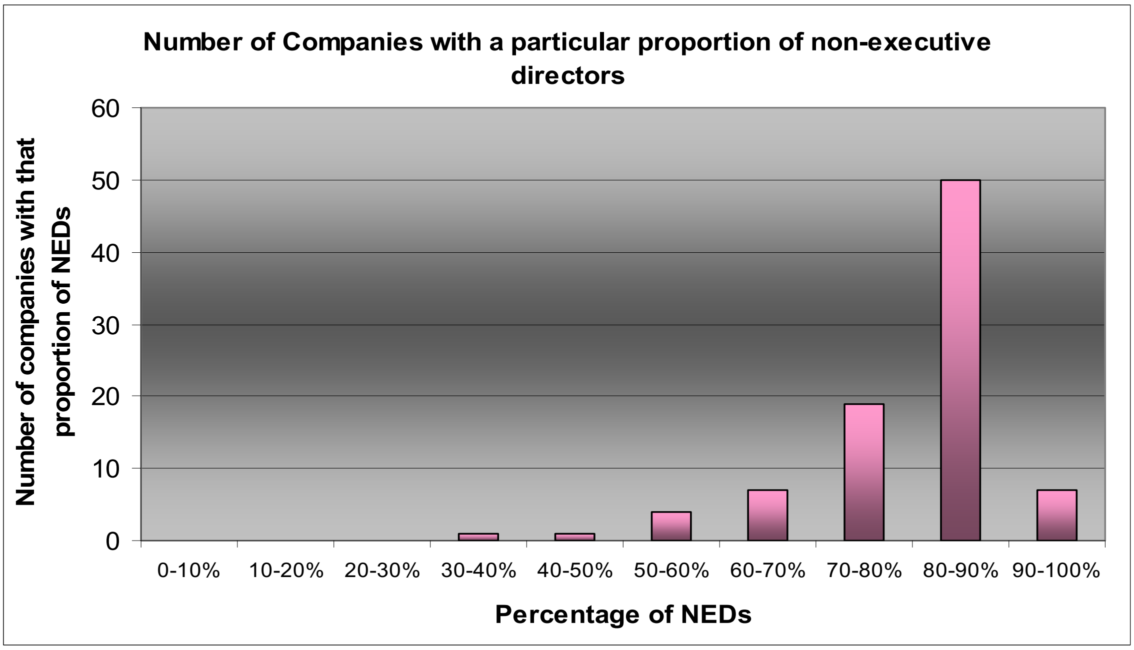

Figure 3.2. Proportion of non-executives on a board: distribution across sample companies

6 The three companies with no executive directors were St George (which did not appoint its new CEO, Paul Fegan, to the board); Santos and Zinifex. In the case of Santos and Zinifex the lack of an executive director reflected the departure of the prior CEO and the search for a replacement.

7 The board of one trust entity in the S&P/ASX 100 consisted of only 4 non-executive directors. As noted above, pure trusts have been excluded from the sample.

3.4 Proportion of independent directorships among non-executive directorships

Not all non-executive directors (NEDs) are independent. There are many definitions of an independent director, with the majority being broadly similar. This study uses the ACSI Guidelines (3rd edition) definition of independence. Under this definition, in order to be independent, a director must not be a member of the company's management team (i.e. must be non-executive) and should:

- not be a substantial shareholder or an affiliate of a substantial shareholder. A 'substantial' shareholding is defined as a 5 percent or larger holding in the relevant entity;
- not be a representative of a substantial or founding shareholder;
- not have been employed within the last three years in an executive capacity by the company or an associated entity of the company;
- not be or have been in the last three years a principal or employee of a professional adviser to the company or a related entity;
- not be a substantial supplier or customer of the company or related bodies corporate;
- not have a material contractual relationship with the company or related bodies corporate other than as a director of the company;
- be free from any interest or affiliation and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the independent director's ability to act in the best interests of the company;
- not participate in the same share option or performance-related remuneration schemes that apply to executives within the company;
- not hold other directorships that potentially give rise to a conflict of interest or otherwise impede the proper discharge of their director responsibilities;
- not serve as a director or employee of a company in which the company has a notifiable holding;
- not receive fees for services to the company of a level which is indicative of significant involvement in the company's affairs or which are significant in relation to salaries received by directors;
- not serve as an executive director or employee of, or have a notifiable holding in, a significant competitor of the company;
- not be a spouse, de facto spouse, parent, child or a spouse or de facto spouse of other non-independent directors, senior executives or advisers to the company; and
- not benefit from any related party transaction.

Independence of boards…	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*
Total number of directorships…	687 (100.0%)	655 (100.0%)	724 (100.0%)	775 (100.0%)	781 (100.0%)	757 (100.0%)
→ Of those board seats, how many are non-executive?	532 (77.4%)	516 (79.0%)	576 (79.6%)	629 (81.2%)	626 (80.2%)	615 (81.2%)
→ → Of those NEDs, how many are independent?	333 (62.6% of NEDs, or 48.5% of directorships)	336 (65.1% of NEDs, or 51.3% of directorships)	365 (63.4% of NEDs, or 50.4% of directorships)	503 (80.0% of NEDs, or 64.9% of directorships)	504 (80.5% of NEDs, or 64.5% of directorships)	496 (80.7% of NEDs, or 65.4% of directorships)

Table 3.2. Board composition - independent directorships

Some observations from the analysis are:

- Slightly more than 65 percent of all board seats are held by independent non-executive directors. This is nearly in line with the results obtained in the last two years. However, as in 2005 and 2006, this represents a big increase from prior years, when for example, in 2004 independent directors held 50.4 percent of board seats. However, in 2004, ACSI considered all directors with more than nine years' service to be affiliated, whereas only those directors who had spent more than 20 years on a board were considered to be affiliated for reasons of tenure from the release of the second edition of the ACSI Guidelines (2005 onwards). The substantial increase between 2004 and 2005 is due almost entirely to this change in classification.

- Of all board seats held by non-executives, approximately 81 percent of these are held by independent non-executives with the other 19 percent by affiliated non-executives (refer to section 3.5 below).

- Formerly, it was quite common for companies to classify their directors as simply executive and non-executive, without differentiating between independent and affiliated non-executives. However, since the publication of the ASX Corporate Governance Council's Guidelines in March 2003, and with the growth in investor awareness of corporate governance issues, that practice is now rare. Most companies make the distinction between independent and affiliated non-executives in the annual report (although some companies are less definite in distinguishing between executive and non-executive directors). Companies do not however necessarily use a definition of 'independence' consistent with the ACSI Guidelines. If a company adopts the ASX Corporate Governance Council's definition of independence, it may classify as independent a director who, under the ACSI criteria, would be classified as affiliated.

- In addition, some companies use a materiality threshold that is so generous that a non-executive director is classified (by the company) as independent despite the director being linked to hundreds of thousands, or even millions, of dollars worth of related party transactions. Such directors would be clearly affiliated under ACSI's independence criteria.

3.5 Reasons for non-executive directors being classified 'affiliated'

Figure 3.3 provides a breakdown of the reasons why 119 of the 615 non-executive board seats were classified as held by affiliated non-executive directors.[8] The pie chart shows the relative frequency of each of the ACSI criteria that were triggered.

The two most common reasons why a non-executive director's independence is considered impaired are (i) they are a substantial shareholder in the company (i.e. owns 5 percent or more of the stock), or are linked to a substantial shareholder, and (ii) they are a material professional adviser to the company. This is the same as in 2005 and 2006 (in 2004, prior to the change in the ACSI Guidelines described above the most common reason why a non-executive director's independence was considered impaired was for reasons of tenure, where they had been on a board for nine years or more).

Extremely long tenure could still diminish a director's ability to provide a detached and objective perspective. For this reason, for the purposes of this study, any director who had served on the board for 20 years or more was classified as affiliated. These directors are included in the section of the pie chart labelled 'Other Material Interest/Relationship'.

[8] Where a single person sits on two or more boards, in one directorship he / she may be affiliated and in another directorship he / she may be independent. The position depends on his/her relationship with each company.

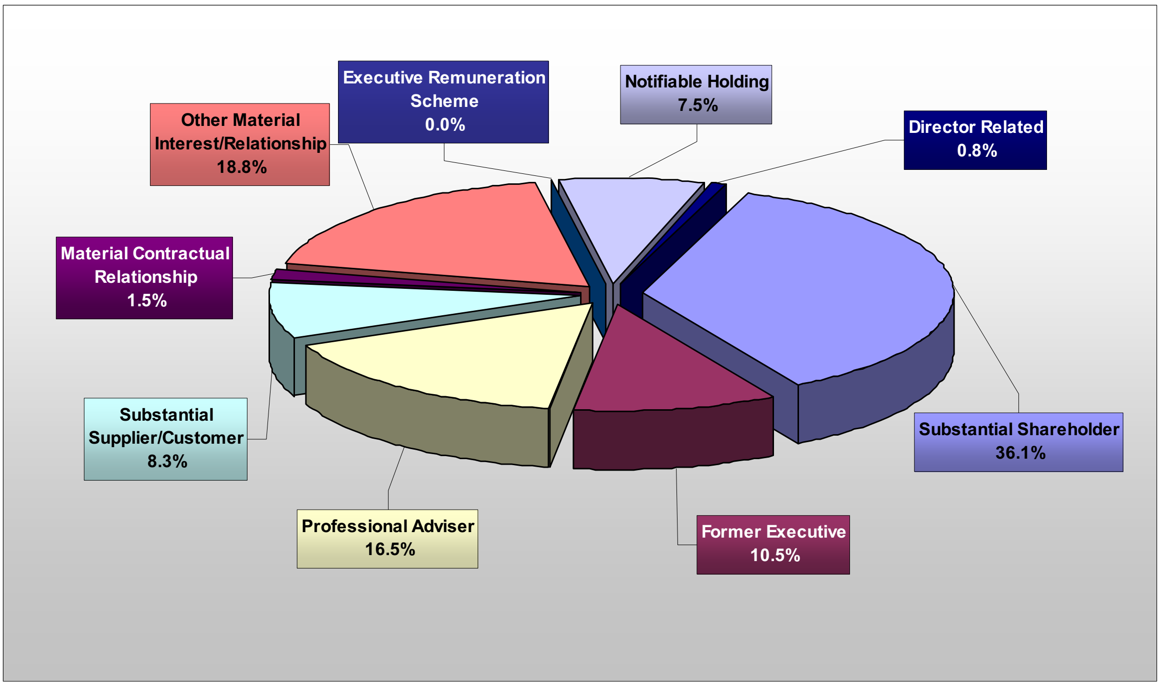

Figure 3.3. Causes of non-executive directorships being 'affiliated'[9]

[9]* A notifiable holding refers to directors of the primary company sitting on a board of another company where the primary company holds 5 percent of more of the total equity.

4 Board Structure

4.1 Incidence of audit, remuneration and nomination committees

Audit, remuneration and nomination committees are committees of the board, normally consisting of a sub-set of the company's directors. Occasionally, a person who is not a director will serve on one of these committees, but this tends to occur only in companies outside the S&P/ASX 100.

	Audit committee only	Audit and remuneration committees	Audit, remuneration and nomination committees
Annual Report year ends in 2000 (of 34)	2	13	19
Annual Report Year ends in 2001 (of 46)	4	13	29
Annual Report Year ends in 2002 (of 81)	6	33	42
Annual Report Year ends in 2003 (of 79)	2	11	66
Annual Report Year ends in 2004 (of 87)	3	5	79
Annual Report Year ends in 2005 (of 92)	3	4	85
Annual Report Year ends in 2006 (of 93)	3	4	86
Annual Report Year ends in 2007 (of 89)	3	5	81

Table 4.1. Incidence of key board committees

The key findings on incidence of board committees are:

- In the 2007 financial year, a small minority of the Top 100 companies in the sample had only an audit committee (three out of 89, or 3.4 percent). Five of the sample companies (5.6 percent) had an audit committee and a remuneration committee, but lacked a nomination committee. The remaining 81 sample companies (91 percent) had all three key governance committees (see Table 4.1 and Figure 4.1). As in 2000 - 2006, no company was found to have only an audit committee and a nomination committee.

- All the sample companies had an audit committee. This reflects ASX Listing Rule 12.7, which mandates that an audit committee be present for all S&P All Ordinaries Index entities.

- 96.6 percent of the sample companies had a remuneration committee. Between 2004 and 2006, an average of 96.7 percent of companies had such a committee. In 2001, 91 percent of companies had a remuneration committee; in 1995, just 66 percent of companies had remuneration committees. By means of comparison, a remuneration committee is no longer optional for publicly listed US companies as the New York Stock Exchange (NYSE) in the wake of scandals involving Enron, WorldCom, Tyco, and the like, revised its Listing Rules to make remuneration committees mandatory.

- 91 percent of sample companies had a nomination committee — down from 92.5 percent in 2005 and 2006, and up from 90.8 percent in 2004, 83.5 percent in 2003, 51.9 percent in 2002, 60 percent in 2001 and just 19 percent in 1995. Of those companies that did not have a nomination committee, most indicated that nomination issues were dealt with by the board itself. However, conflict of interest issues may arise when this is the case, as all of those sitting on the board (including executive directors) are also determining its composition. Again, by way of comparison, all NYSE-listed US companies must now have a nomination committee (resulting from the same stock exchange listing rule amendments referred to above).

- Additionally, several companies combined the function of remuneration and nomination committees into a single committee.

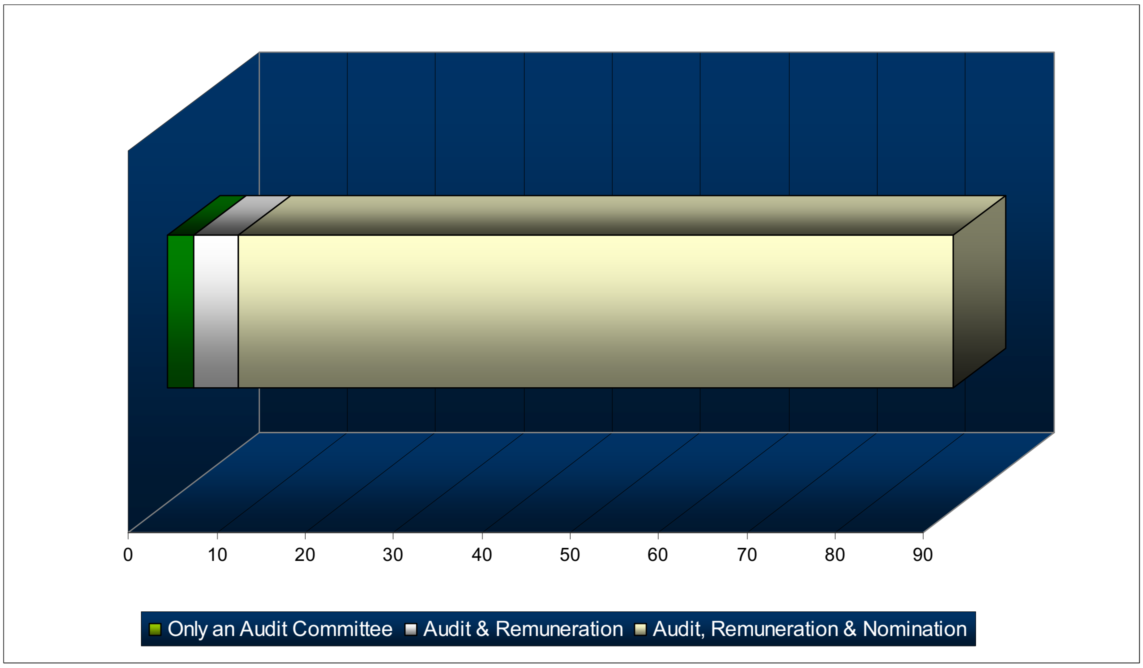

Figure 4.1. Incidence of board committee combinations

4.2 Composition of audit, remuneration and nomination committees

The ACSI Guidelines (and the Investment and Financial Services Association (**IFSA**) Blue Book Guidelines) recommend that a given company's audit committee should consist solely of independent non-executive directors. The ASX Corporate Governance Council's Guidelines are less stringent, recommending audit committees consist solely of non-executive directors, with a majority being independent including the chairperson. Under ASX Listing Rule 12.7, the Top 300 companies listed on the ASX are required to comply with this ASX Corporate Governance Council recommendation (a transitional period applied from 1 January 2003 until 1 July 2005):

> "While such companies should aspire to satisfy recommendation 4.3 as soon as practicable, in order to avoid undue disruption, it need not be applied until 1 July 2005. Instead, prior to 1 July 2005:
>
> - the audit committee may comprise a majority of non-executive directors; and
> - at least one member of the audit committee must be independent."

The ACSI Guidelines (and the ASX Corporate Governance Council and IFSA guidelines) recommend remuneration and nomination committees should include a *majority* of independent non-executive directors. This means it is possible for a company to comply with the recommended composition even if the CEO, or another executive, sits on the committee. In contrast, the listing rules of the NYSE require that the remuneration and nomination committees consist only of independent non-executive directors (although it should be noted that the NYSE's independence criteria are in some aspects very different to those of ACSI – for example, a director affiliated with a substantial shareholder is not considered to be affiliated under the NYSE tests for independence).[10]

Underpinning these best practice recommendations is the concern that committees which include members who face potential conflicts of interest may not be able to deal with these issues in a completely independent, impartial and unbiased fashion. Company directors often face circumstances where their own personal interests are in conflict with their duties as directors, and as a result, the establishment of such committees may mitigate such conflicts.

The key findings on composition of board committees of sample companies are:

- Combining all three key governance committees, the average committee composition was 4.7 percent executive directors, 16.9 percent affiliated non-executive directors and 78.4 percent independent non-executive directors, as opposed to 3.6 percent executive directors, 16.5 percent affiliated non-executive directors and 79.9 percent independent non-executives directors in 2006 (See Figure 4.2).

- The incidence of executive directors on audit committees is significantly lower than on remuneration and nomination committees. This is presented in the bar charts provided in Figure 4.3. The precise numbers are displayed in Figure 4.4 — showing that only 1.2 percent of audit committee members are executive directors (although executives are prohibited from serving on audit committees under ASX Listing Rule 12.7, two companies – Qantas and Orica, each had two executive directors who were 'ex officio' members: that is, they had a right to attend meetings but were not voting members of the audit committee).

- Table 4.2 assists in illustrating the trends that have developed over time. Executive director membership of the audit committee fell significantly between 2001 and 2007, with the number of affiliated non-executives serving on audit committees falling by a smaller but still meaningful percentage. In 2001, executive directors accounted for 9.8 percent of audit committee positions; by 2007 this had fallen to 1.2 percent.

- In 2001, executive directors accounted for 13.2 percent of remuneration committee positions but by 2007 this had fallen to 5.3 percent.

- In 2001, executive directors accounted for 12.4 percent of positions on nomination committees. By 2007 this had fallen to 8.8 percent (although this was up from 6.6 percent in 2006 and 6.8 percent in 2005).

	Executive			**Affiliated**			**Independent**			**Total**		
	2001	**2007**	**change**	**2001**	**2007**	**change**	**2001**	**2007**	**change**	**2001**	**2007**	**change**
Audit com. membership	29	4	***-86.2%***	106	59	***-44.3%***	160	273	*70.6%*	**295**	**336**	***13.9%***
Rem. com. membership	26	12	***-53.9%***	79	36	***-54.4%***	92	179	*94.6%*	**197**	**227**	***15.2%***
Nom. Com. Membership	12	23	***91.7%***	32	45	***40.6%***	53	195	*267.9%*	**97**	**263**	***171.1%***
Combined R&N com. membership	7	5	***-28.6%***	20	18	***-10.0%***	56	86	*53.6%*	**83**	**109**	***31.3%***
Total committee membership	**74**	**44**	***-40.5%***	**237**	**158**	***-33.3%***	**316**	**733**	***132.0%***	**672**	**935**	***39.1%***

Table 4.2. Aggregate committee membership breakdown

[10] New York Stock Exchange, "Listed Companies Manual", available at http://www.nyse.com/Frameset.html?nyseref=http%3A//www.nyse.com/regulation/listed/1101074746736.html&displayPage=/lcm/lcm_subsection.html, as at 23 July 2008.

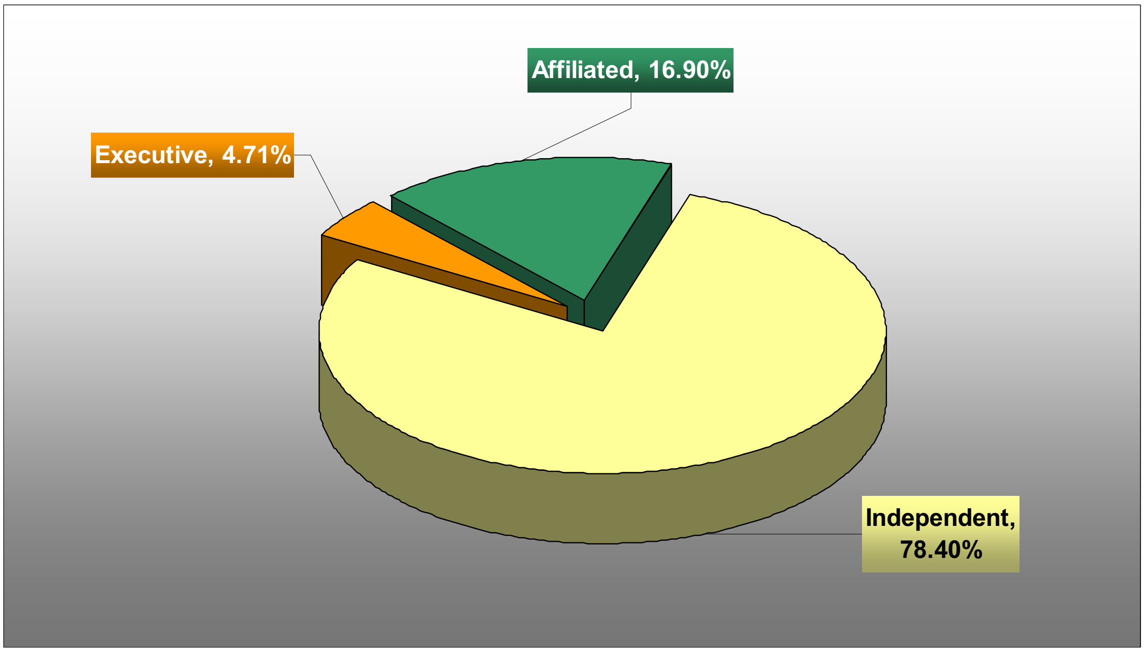

Figure 4.2. Aggregate committee membership: executive, affiliated and independent breakdown

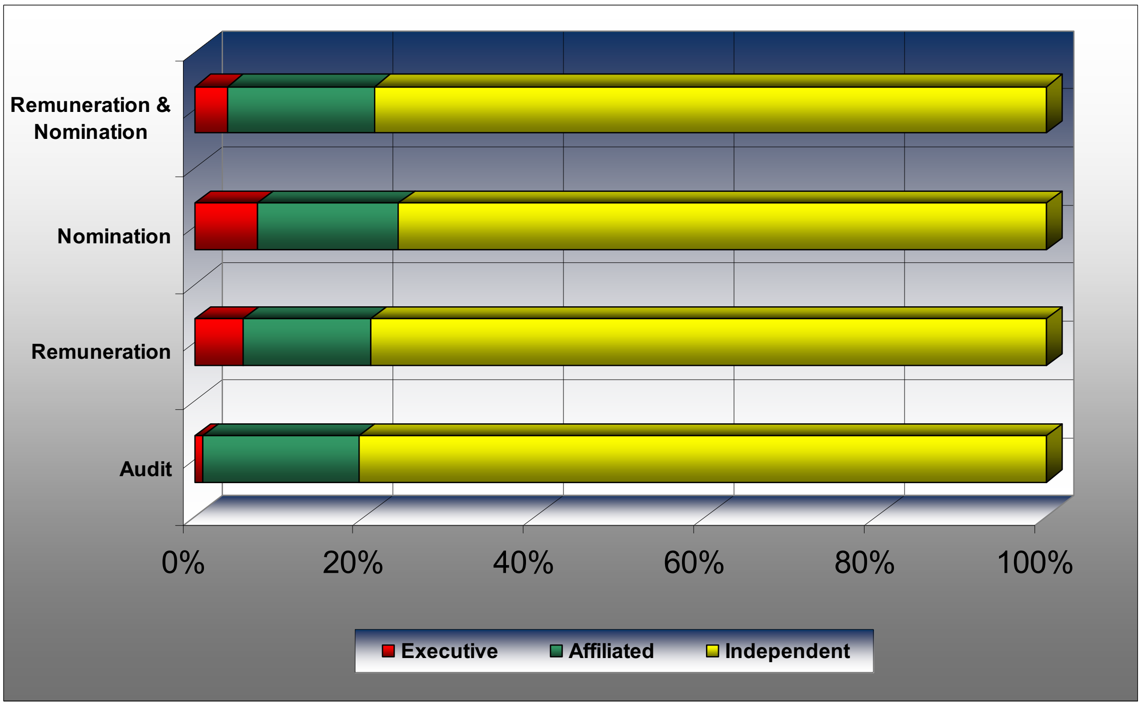

Figure 4.3. Breakdown of aggregate executive, affiliated and independent committee memberships

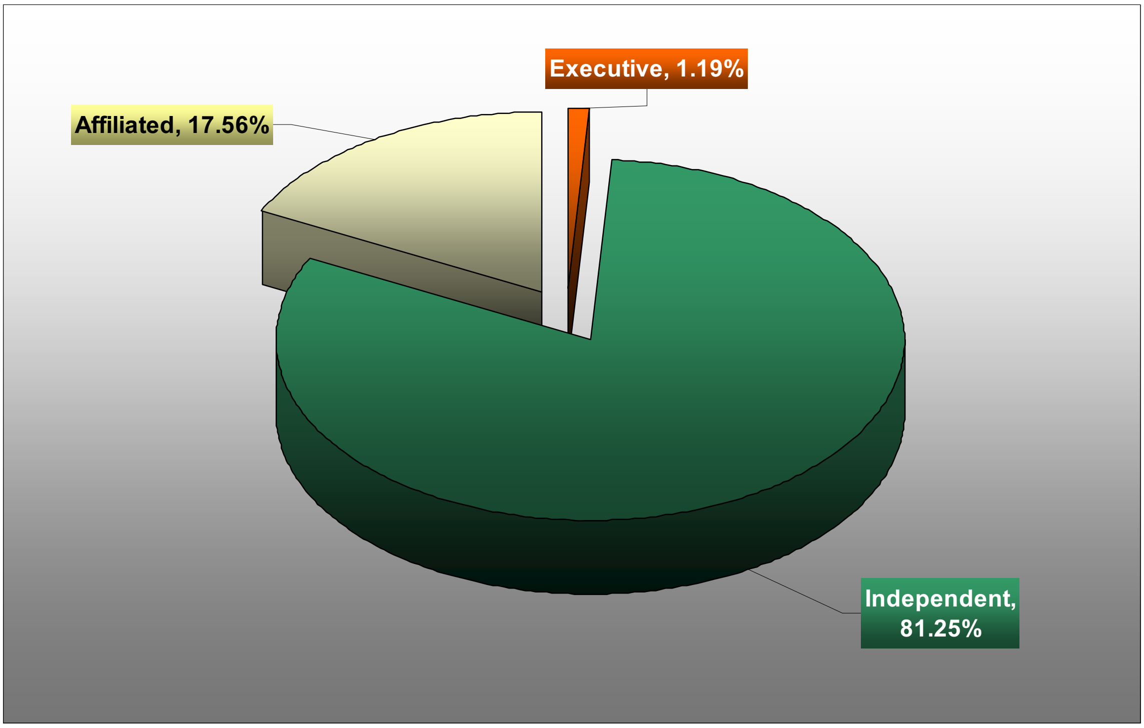

Figure 4.4. Audit committee membership: executive, affiliated and independent breakdown

4.3 Incidence of companies with an independent chairperson

The ACSI Guidelines at paragraph 11.2(a) recommend that the board chairperson should be an independent director:

> "A Chairperson should be selected from the pool of Independent Non-Executive Directors on the Board. ACSI considers that combining the roles of Chairperson with CEO or Executive Director positions creates an unacceptable concentration of power and diminishes the degree of accountability that would usually result from a separation of the two roles. Therefore, the roles of Chairperson, CEO and Executive Director should be separated in listed Corporations."

There are three ways in which a company chairperson may *not* be independent:

1. Where the chairperson is also the CEO.

2. Where the company has a separate chairperson and CEO, but the chairperson is an executive director. It appears that in most such cases (for example, Westfield Group) the 'executive chairperson' is the most senior executive officer in the company (i.e. the executive chairperson is the true boss, rather than the CEO).

3. Where the company has a separate chairperson and CEO, and the chairperson is a non-executive director, but he or she does not meet the definition of an 'independent' non-executive director. That is, he or she is an affiliated non-executive director (for example, at QBE Insurance, the non-executive chairperson is the former CEO of the company).

Figure 4.5 shows that as in 2005 and 2006, the chairperson of most S&P/ASX 100 companies was a non-executive director with 76.4 percent of the sample companies having an independent non-executive chairperson (compared to an average of 78 percent in 2005-2006; an average of 46.1 percent in 2002-2004, and 36.7 percent in 2001; however, again, the significant increase in independent chairpersons between 2004 and 2005 is largely due to ACSI no longer considering directors on the board for nine years as affiliated). Another 14.6 percent of sample company chairpersons were classified as affiliated non-executive directors (compared to an average of 12.9 percent in 2005-2006; an average of 41.6 percent in 2002-2004 and 48.1 percent in 2001).

The positions of CEO and chairperson were combined in only one incidence in the sample companies (compared to 3.3 percent in 2006, 5.4 percent in 2005 and 3.8 percent in 2001). The incidence of companies with a CEO and a separate executive chairperson rose sharply in 2007, from 2.2 percent in 2006 to 7.9 percent of sample companies (the highest incidence of companies with an executive chairperson and a CEO since 2003, when 8.9 percent of the sample had separate CEOs and executive chairs).[11]

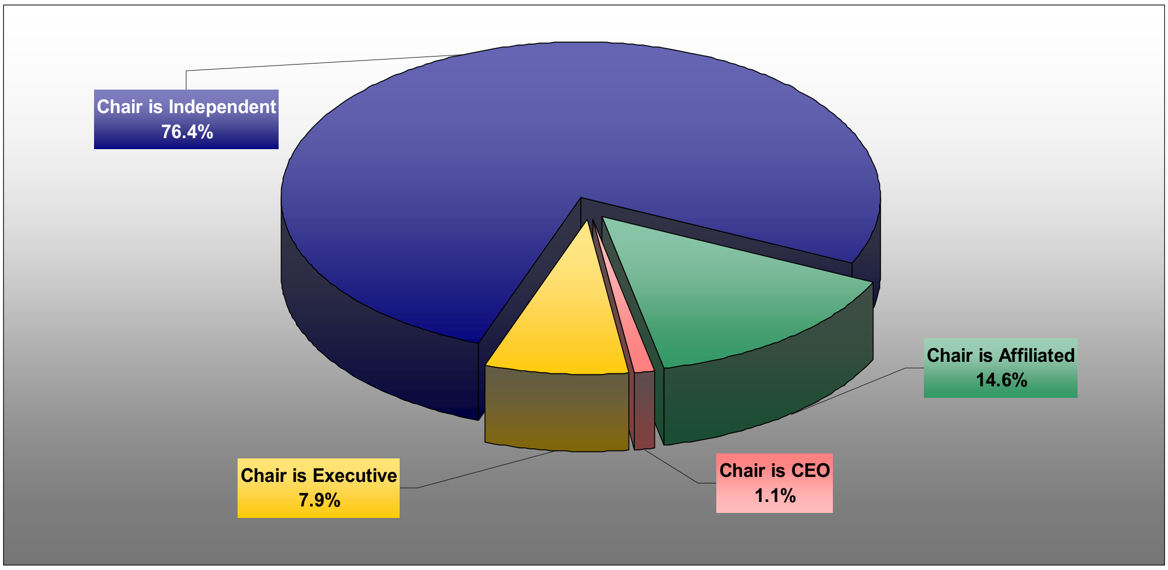

Figure 4.5. Board Chair - classification

[11] The following executive chairpersons were considered to be the effective CEOs of their companies, even though in all cases there was a CEO or managing director also in office: David Coe at Allco, Gerald Harvey at Harvey Norman Holdings, Frank Lowy at Westfield Group. The three companies deemed to have an executive chairperson and a CEO on the board were Macquarie Group (David Clarke and Allan Moss), Babcock & Brown (James Babcock and Phillip Green) and PBL (James Packer and John Alexander, a change from 2006 when Packer was considered the effective CEO). In the case of Macquarie Communications Group, the CEO is not a board member (and is employed by the external manager, a subsidiary of Macquarie) and the chairperson is an executive.

5 Age of Directors

The age of directors in this sample ranged from 35 to 80, with an overall arithmetic average age of 58.3. This is similar to the results for 2005 and 2006, when the average age was 58 (2004: 31 to 80, average 58.3). Figure 5.1 shows the average board ages for all the companies in the sample. As can be seen, a majority of boards have an average age of between 60 and 65.

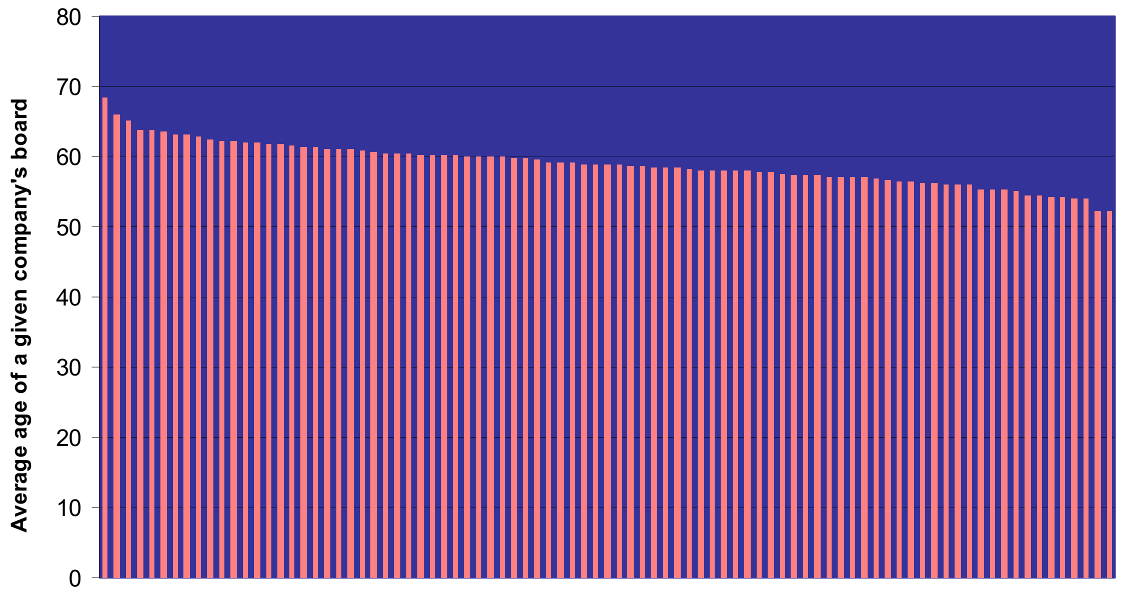

Figure 5.1. Company average of age of boards in sample, ordered by decreasing average age

Average Ages…	Executive and Non-Executive Directors						
[2001 – 2007]	2001	2002	2003	2004	2005	2006	2007
Men	57.6	57.6	57.5	58.8	59.1	59.5	59.7
Women	51.2	51.2	51.4	53.0	53.0	53.4	54.1
Men and Women	57.0	57.1	57.0	58.3	58.0	58.0	58.3

Average Ages…	Executive Directors						
[2001 – 2007]	2001	2002	2003	2004	2005	2006	2007
Men	51.5	51.5	51.3	52.2	53.5	53.3	52.8
Women	46.5[12]	47.0	46.3	49.2	50.0	51.0	52.5[13]
Men and Women	51.4	51.3	51.3	53.1	53.4	53.3	52.8

Average Ages…	Non-Executive Directors						
[2001 – 2007]	2001	2002	2003	2004	2005	2006	2007
Men	59.5	59.5	59.8	60.4	60.4	61.0	61.2
Women	51.4	51.5	52.1	53.3	53.2	53.6	54.2
Men and Women	58.6	58.9	58.7	59.8	59.3	59.8	60.0

Table 5.1. Company average of directors' age: 2001 to 2007

12 Based on a sample of two.
13 Based on a sample of two.

Average Ages… [2000]	Executive Directors	Non-Executive Directors	Executive and Non-Executive Directors
Men	51.04	58.95	**57.14**
Women	45.00	52.18	**51.77**
Men and Women	**50.90**	**58.23**	**56.67**

Table 5.2. Average of director age

A breakdown of the company average of directors' age for executive and non-executive, and for male and female directors, is contained in Table 5.1, which shows significant differences between the ages of male and female directors, and also between executives and non-executives. It also illustrates the gradual ageing of the non-executive director pool, perhaps partly as a result of directors who are already board members of S&P/ASX 100 companies making up the majority of appointments to S&P/ASX 100 company boards, with the average non-executive director having aged from 58.6 in 2001 to 60 in 2007 (and from 59.5 to 61.2 for men and 51.4 to 54.2 in the case of women).

In 2007, as in prior years, male non-executive directors were substantially older than their female counterparts, being on average 7 years older down from 7.4 years older in 2006 (although male executive directors were on average only 0.3 years older than their female counterparts, which represents a decrease of two years in the age gap since 2006.

Figure 5.2 shows the frequency of different age groups within the sample, distinguishing executive and non-executive directors, and also distinguishing directors by gender. The most common age band for non-executive directors is 60 to 69. This reflects the fact that *retired* former executives make up a very significant proportion of non-executive directors serving on S&P/ASX 100 boards. As noted above, separate research by ISS found that 50 percent of S&P/ASX 200 non-executive directors were, as at 2006, retired former corporate executives (the vast majority of these former executives had not held an executive position at the company on whose board they now sit as a non-executive director; their executive careers were with other companies).

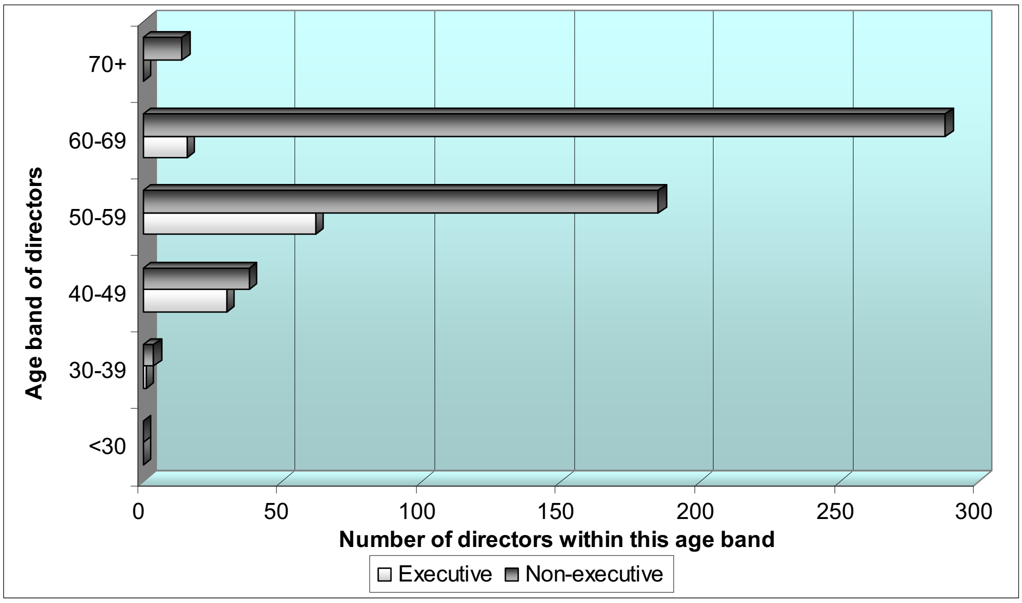

Figure 5.2. Frequency of occurrence of various age bands within the sample

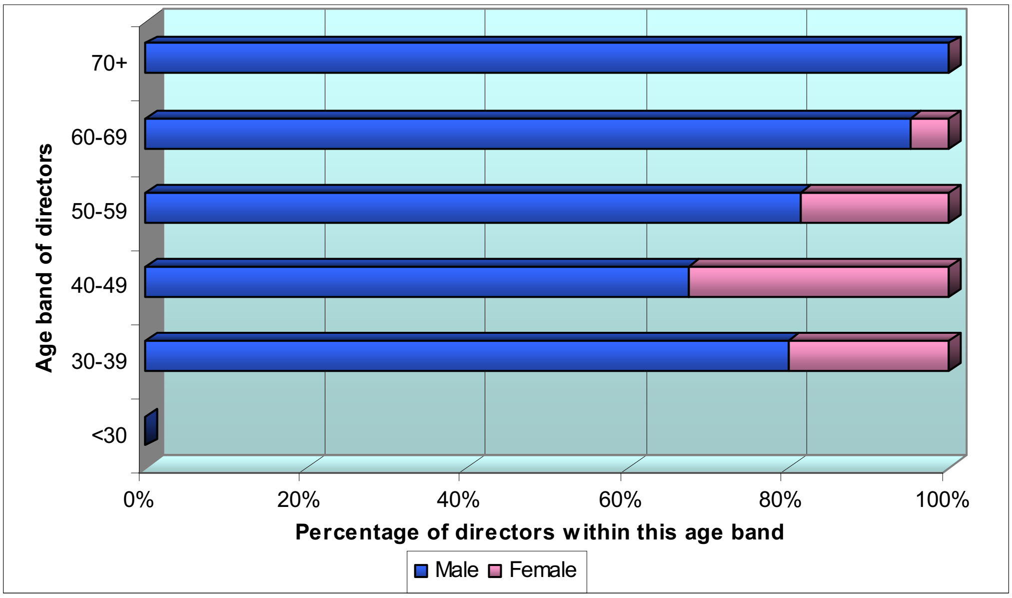

Figure 5.3. Percentage frequency of occurrence of various age bands within the sample

6 Tenure of Directors

The average (mean) number of years that directors have served on the boards of Top 100 companies was 5.4 years in 2007, down from 5.8 years in 2006, 2005 and 2004 and down from 6.6 years in 2003. The median tenure was 3.7 years – down from an average of 4.1 years in 2004, 2005 and 2006 and 5 years in 2003.

- **Executive directors:** The mean tenure was 6.9 years and the median 4.6 years (compared to a mean of 6.8 years and median of 5.5 years in 2006 and 7.1 years and 4.2 years in 2005). The longest-serving executive director had been on in office for 47.5 years.
- **Non-executive directors:** Mean tenure was 5.1 years while the median was 3.6 years (compared to a mean of 5.5 years and median of 3.8 years in 2006). The longest-serving non-executive director had been on the board for 26.5 years.

From these results it appears that the average executive director of a Top 100 company has been in office longer than the non-executive directors meant to hold them accountable. This is at odds with the image propagated in recent years of rapid turnover in executive ranks and also poses challenges for boards of relatively inexperienced directors trying to oversee an experienced and long serving CEO.

As Figure 6.1 illustrates, the most common length of time on the board is from one year to less than five years, followed by from five years to less than nine years. Nearly two thirds of directorships - 64.1 percent of all S&P/ASX 100 board seats - have been held for longer than one year but less than nine years.

As noted above, the first edition of the ACSI Guidelines classified directors as being affiliated if they remained on the board for more than nine years. Since the release of the second edition of the guidelines, this 'automatic' preclusion from independence has not been applied.

In 2007, a total of 48 directors were appointed for the first time to an S&P/ASX 100 non-executive board position. This represents 8 percent of total directors in the study. The number of new non-executive appointees a year earlier was 40 directors, while it was 49 in 2005. The number of people appointed to a Top 100 non-executive directorship in 2007 who *already held* a Top 100 non-executive directorship (or had held one in the past) was 58. This figure was 94 a year earlier. A further 20 people were appointed to a Top 100 *executive* directorship during the year (28 in 2006).

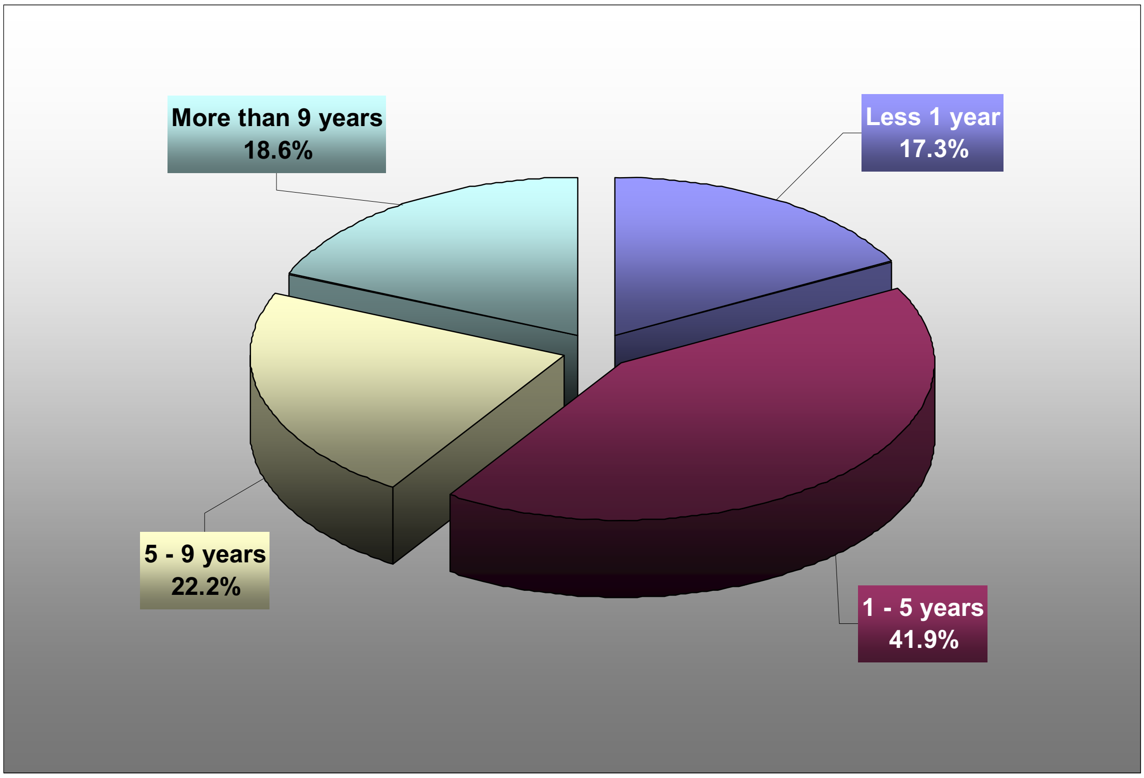

Figure 6.1. Tenure of directors on Top 100 boards: 2007

7 Gender Distribution on Boards in the Top 100

In 2007, women were still underrepresented on Top 100 company boards and the percentage of female directors dropped in 2007. The trend since the mid-1990s, where the percentage of female directors had been growing appears to have stalled since 2003. This year's study indicates the biggest decrease in female directors and female board seats since the beginning of the ACSI longitudinal.

As Figure 7.1 illustrates, of the 597 individuals who held one or more Top 100 board seats at the date of the study, 89.6 percent were men while only 10.4 percent were women. This is a decrease from female directors accounting for 11 percent of the sample a year earlier.

Historical comparison	*1995*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*
Female Directors	3.9%	7.2%	8.0%	9.0%	9.3%	9.3%	9.2%	11.0%	**10.4%**
Female Directorships	3.6%	8.3%	9.2%	10.5%	11.1%	11.0%	11.1%	12.6%	**12.4%**

Table 7.1. Women on boards: 1995 to 2007

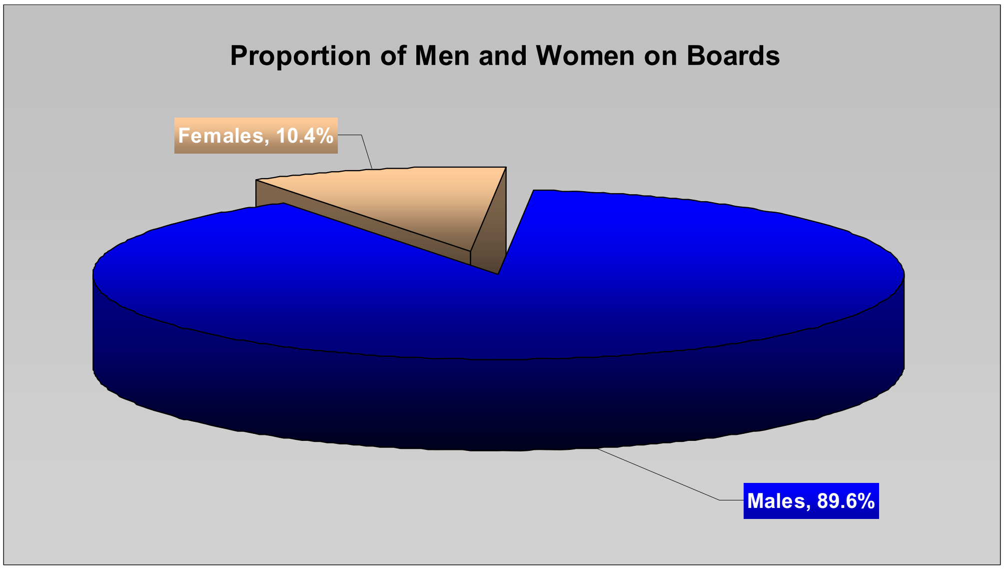

Figure 7.1. Proportion of men and women who are directors

Figure 7.2 shows the distribution of women on boards in the sample:

- Three companies had three female directors on their board (compared to four in 2006; two in 2005; one company in 2004; two companies in 2003 and none in 2002 and 2001 – although one company had four women on its board in 2002 and 2001).
- 21 companies had two female directors on their board, (compared to 18 companies in 2006; 19 companies in 2005; 17 companies in 2004; 16 companies in 2003; 12 companies in 2002 and 10 companies in 2001).
- 43 companies had one female director on their board (compared to 50 companies in 2006; 42 companies in 2005; 43 companies in 2004; 37 companies in 2003; 44 companies in 2002; and 42 companies in 2001).
- 22 companies had no female directors on their board (compared to 21 companies in 2006 and 2005; 26 companies in 2004; 24 companies in 2003; 25 companies in 2002; and 30 companies in 2001). Of these 22 companies, 11 have been members of the S&P/ASX 100 for the past three years and have had no women on the board in the 2005, 2006 and 2007 financial years.[14]

[14] Two of these companies are the Bermudan companies within MCG and MIG. In both of these cases no women serve on the boards of the other entities within the stapled security structure. In the case of MCG, two women served on the board of its Bermudan company when it was first incorporated; however they left the board when the Bermudan company became part of the MCG triple stapled security.

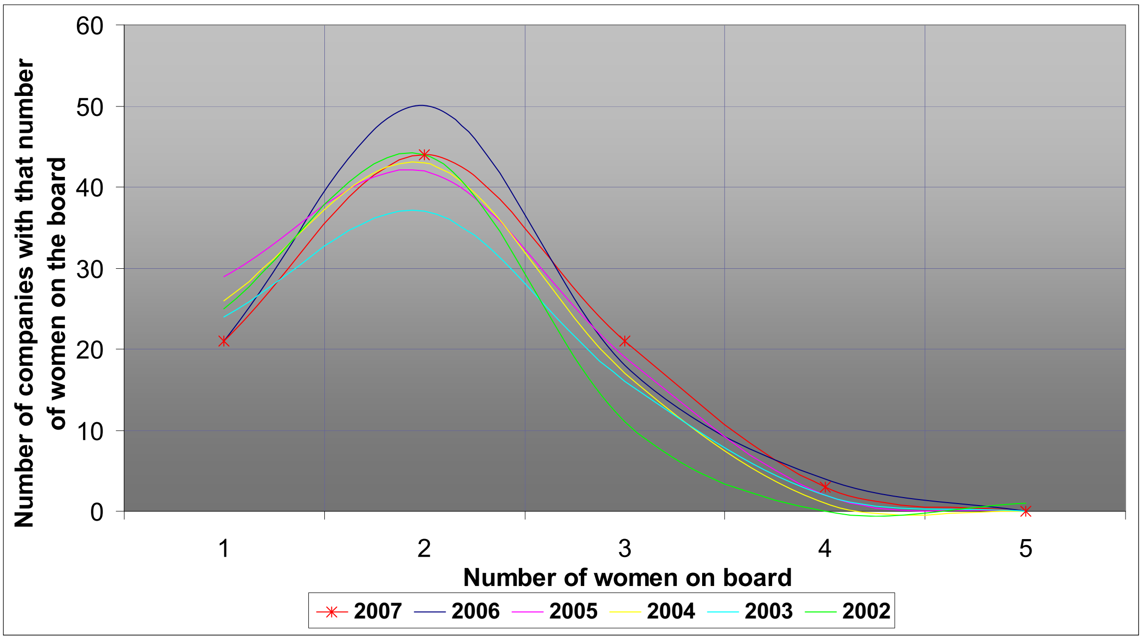

Figure 7.2. Distribution of the number of women on boards

Women held 94 or 12.4 percent of the 757 board seats in Top 100 companies. However, the number of board seats that a given woman will hold is, on average, higher than that for any given man. This is because a large number of the female directors hold more than one board seat while a sizable majority of male directors do not. This may also be due to the fact that, relatively speaking, women may find it more difficult to be nominated for company directorships, and as a result, those who aspire to such positions are required to 'specialise' in being company directors (an alternate explanation is that some boards, wary of being accused of gender imbalance, seek out a female director and confine their search to 'safe' candidates ie. those already on listed company boards). Also, as discussed in Section 5, above, female non-executive directors were on average 7 years younger than their male counterparts. A female non-executive director is therefore less likely, than a typical male non-executive director, to have reached the age at which Australians tend to retire from full-time employment. She may therefore have a greater (financial) incentive to sit on multiple boards.

Figure 7.3 is based on total ASX-listed board seats held, both inside and outside the Top 100. It shows that the proportion of women holding more than one directorship was generally higher than the proportion of men with multiple listed board positions:

- One board seat
  - 38.7 percent of the women in the sample (24 of the 62 women)
  - 57.8 percent of the men in the sample (309 of the 535 men)
- Two board seats
  - 29 percent of the women in the sample (18 of the 62 women)
  - 20.7 percent of the men in the sample (111 of the 535 men)
- Three board seats
  - 25.8 percent of the women in the sample (16 of the 62 women)
  - 11.2 percent of the men in the sample (60 of the 535 men)
- Four board seats
  - 6.5 percent of the women in the sample (four of the 62 women)
  - 7.3 percent of the men in the sample (39 of the 535 men)

- Five board seats
  - No women
  - 1.9 percent of the men in the sample (10 of the 535 men)
- Six board seats
  - No women
  - 0.6 percent of the men in the sample (three of the 535 men)
- Seven board seats
  - No women
  - 0.4 percent of the men in the sample (two of the 535 men)
- Eight board seats
  - No women
  - 0.2 percent of the men in the sample (one of the 535 men)

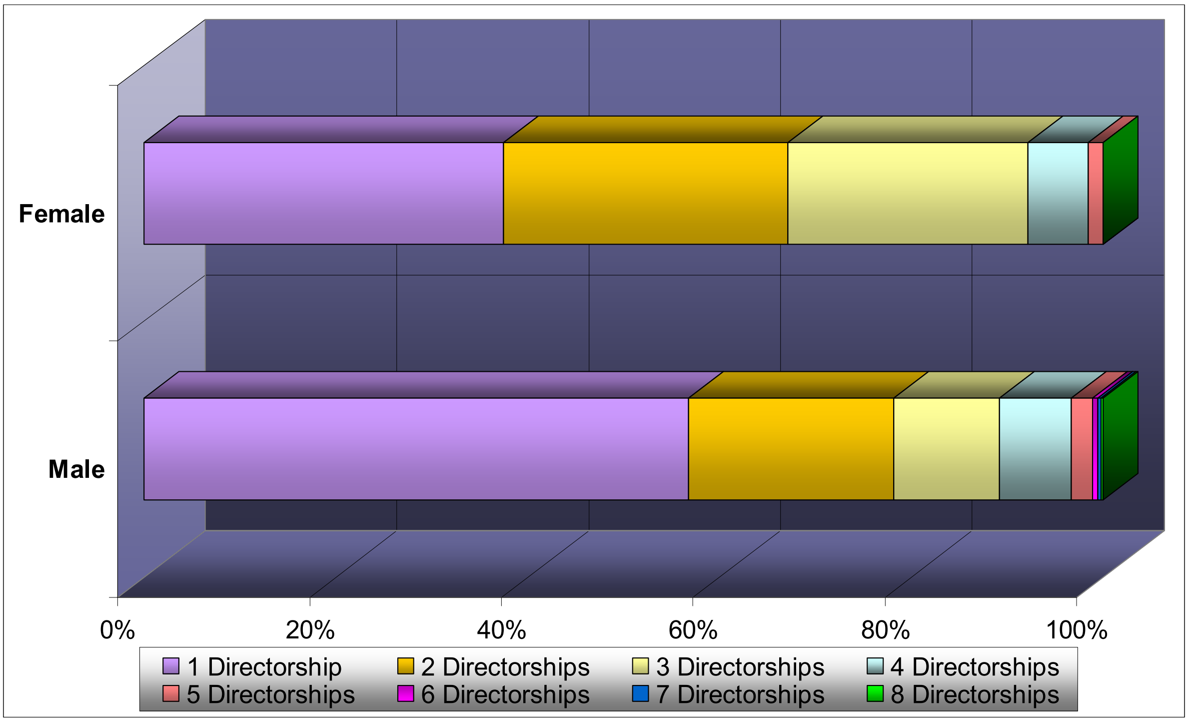

Figure 7.3. Proportion of men and women holding a certain number of directorships

8 Multiple Directorships

This section of the report considers various aspects of multiple directorships, including:

- The incidence of executive directors in the Top 100 also holding at least one non-executive directorship.
- The incidence of professional non-executive directors on Top 100 company boards. A professional non-executive director is defined for this purpose as any individual holding two or more non-executive positions on Top 100 boards.

- The incidence of multiple directorships among people serving on Top 100 company boards. That is, how many board seats on the approximately 1,900 ASX listed entities from July 2006 to June 2007[15] are held by those individuals who serve as directors of Top 100 companies?

8.1 Incidence of executive directors holding multiple directorships

In Australia, the incidence of executive directors also holding non-executive directorships in the Top 100 companies is quite low.

In 2007, all 142 executive board seats in S&P/ASX 100 entities were held by 142 distinct people, compared to 152 people holding 155 executive board seats in 2006. Of those 142 people, only 12 (8.5 percent of all executive directors — compared with 8.6 percent in 2006; 8.3 percent in 2005; 10.3 percent in 2004; 8 percent in 2003; 7.2 percent in 2002; 6.3 percent in 2001 and 9.9 percent in 2000) held one additional non-executive directorship in a Top 100 company. No executive directors held two or more additional Top 100 non-executive directorships.

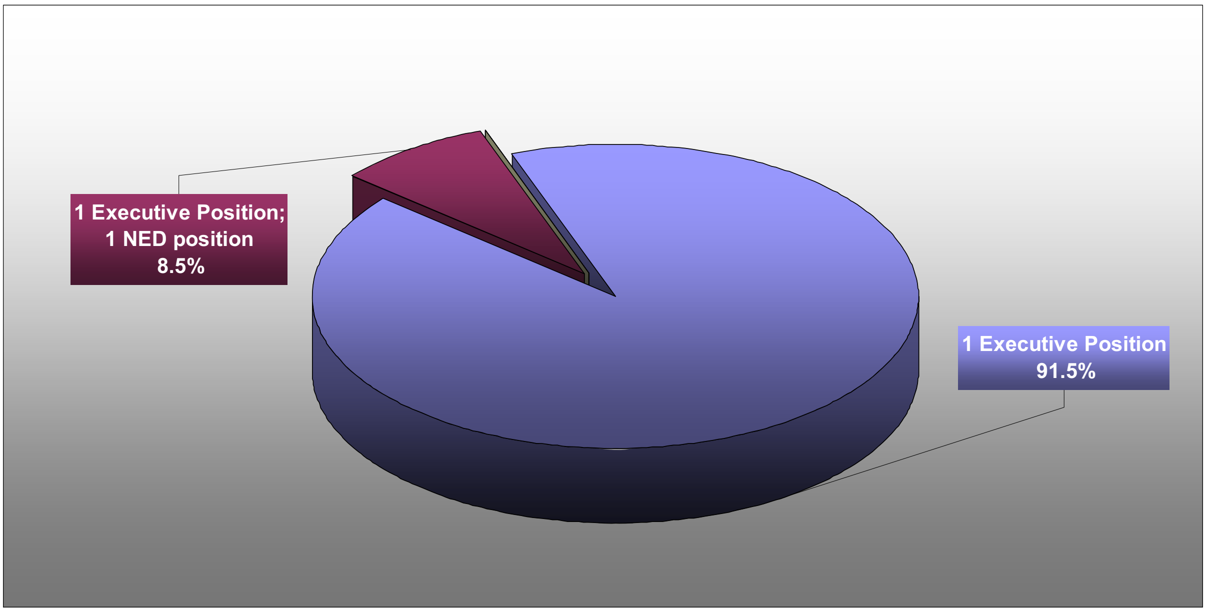

Figure 8.1. Breakdown of executive directors and whether they hold a Top 100 NED position

8.2 Professional non-executive directors

This section considers the degree to which board seats held by non-executives are held by professional non-executive directors — defined as persons who hold two or more non-executive positions (and no executive position) in Top 100 companies. Of the 757 board positions in the sample, 615 were non-executive positions. As a result, the average aggregate composition of all boards was 81.2 percent non-executive and 18.8 percent executive.

[15] Australian Securities Exchange, *Historical Market Statistics*, http://www.asx.com.au/research/market_info/historical_equity_data.htm#No%20of%20Companies, as at 23 July 2008.

Professional NED makeup	2001	2002	2003	2004	2005	2006	2007
Total number of directorships…	695 (100.0%)	687 (100.0%)	655 (100.0%)	724 (100.0%)	775 (100.0%)	781 (100.0%)	757 (100.0%)
➔ Of those 757 seats, how many are non-executive?	536 (77.1%)	532 (77.4%)	516 (79.0%)	576 (79.6%)	629 (81.2%)	626 (80.2%)	615 (81.2%)
➔ ➔ Of those 615 NED directorships, how many are held by “professional NEDs”?	164 directorships (or 30.6% of NED’ships) are held by 72 professional NEDs	201 directorships (or 37.8% of NED’ships) are held by 85 professional NEDs	189 directorships (or 36.6% of NED’ships) are held by 83 professional NEDs	227 directorships (or 39.4% of NED’ships) are held by 99 professional NEDs	269 directorships (or 42.8% of NED’ships) are held by 117 professional NEDs	283 directorships (or 45.1% of NED’ships) are held by 123 professional NEDs	262 directorships (or 43.5% of NED’ships) are held by 114 professional NEDs

Table 8.1. Non-executive directorships broken up and explained

Of the 615 non-executive board seats, 262 (or 43.4 percent) were held by a non-executive who held at least one other Top 100 non-executive board seat. This is lower than in 2006, when professional non-executives held 45.1 percent of all board seats; figures from 2001 to 2005 are provided in Table 8.1. These 262 positions were held by 114 individuals in the sample. Figure 8.2 shows, however, that as in previous years a considerable majority of all Top 100 non-executive directorships (56.6 percent) were held by an individual who held only one Top 100 board seat. This compares to 55.1 percent in 2006, 57.2 percent in 2005, 60.6 percent in 2004, 63.4 percent in 2003, 61.3 percent in 2002 and 68.7 percent in 2001. The trend over time however clearly illustrates the rising importance of the professional non-executive director holding multiple board seats at large companies.

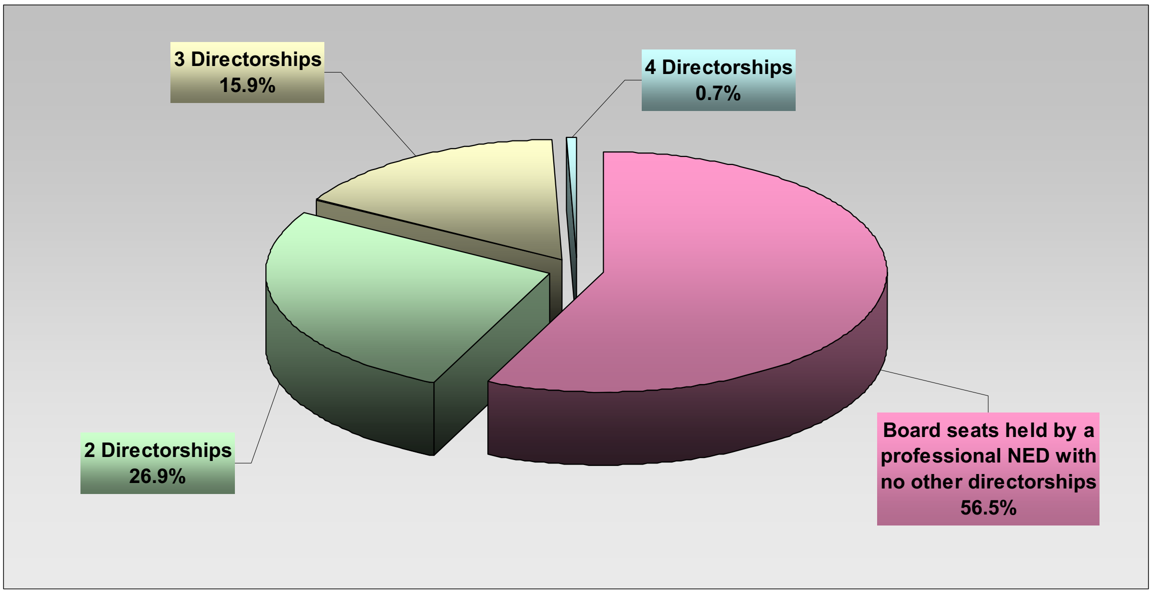

Figure 8.2. Breakdown of Top 100 professional NED board seats by their number of directorships

8.3 Incidence of multiple directorships inside and outside the Top 100 companies

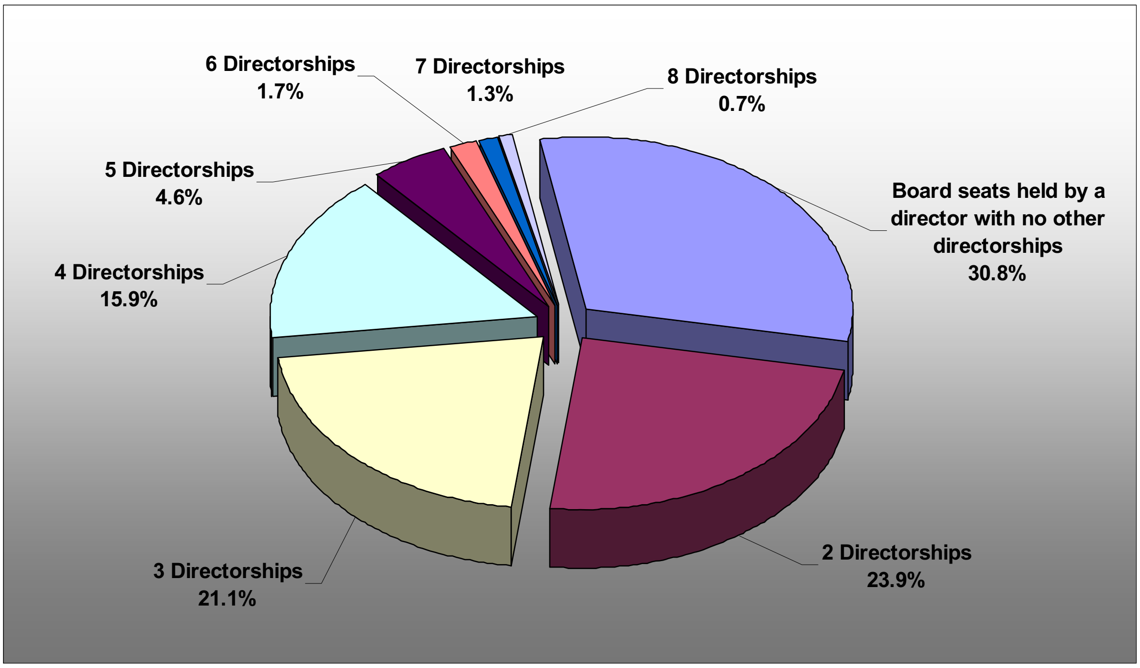

Figure 8.3. Board seats in all ASX-listed companies, held by directors of Top 100 companies

Figure 8.3 illustrates the percentage of board seats on all ASX listed entities that are held by those individuals who serve as non-executive directors of Top 100 companies. It shows that 30.8 percent of non-executive directors on Top 100 boards do not sit on any other listed company board, while 23.9 percent hold one additional board position (making a total of two listed company directorships), and 21.1 percent hold two additional board positions (making a total of three listed company directorships). The most board seats held is eight (with one man holding this many board seats).

9 Remuneration of Non-Executive Directors

This section contains data on: (i) the average pay of non-executive directors, and (ii) the pay of professional non-executive directors who held two, three or four Top 100 non-executive board seats.

9.1 Average pay of non-executive directors

The mean remuneration for non-executive directors (excluding the chairperson) was $174,296 in 2007, up from $162,339 in 2006, $154,165 in 2005, $143,973 in 2004 and $136,600 in 2003. This is a 7.4 percent increase from 2006 and a 27.6 percent increase from 2003. The median was $162,604, up from $149,768 in 2006, $135,853 in 2005, $133,503 in 2004 and $122,132 in 2003. Therefore, the median fee increased by 8.6 percent from 2006 to 2007, and by 33.1 percent from 2003 to 2007. Over time, the median remuneration of a non-executive director has been increasing at a more rapid rate than the mean, indicating that the impact of outliers, particularly extremely large positive remuneration values, is diminishing over time. This suggests that across the sample NED fees are increasing at a more rapid rate than the mean increases suggest, as the majority of directors move closer to those higher paid few.

The mean remuneration for non-executive chairpersons was $390,142 in 2007, up from $372,793 in 2006, $363,576 in 2005, $341,115 in 2004 and $310,385 in 2003. This translates into a 4.6 percent increase between 2006 and 2007 and 25.7 percent increase between 2003 and 2007. The median was $357,760 in 2007, up from $340,200 in 2006, $311,475 in 2005, $310,228 in 2004 and $285,164 in 2003. This represented an increase of 5.1 percent from 2006 to 2007 and 25.5 percent from 2003 to 2007.

These figures include all elements of remuneration of non-executive directors. The largest component is usually the "director's fee". Other components can include, for example: (i) committee fees (additional fees for serving on certain board committees and sub-committees); (ii) superannuation contributions; (iii) perquisites (for example, private travel expenses paid by the company); and (iv) retirement benefits (for those few companies that have an active retirement benefits scheme for some or all non-executive directors).

The raw figures in the 2007 and 2006 longitudinal studies suggests that the rapid increase in director fees observed between 2001 and 2005 is slowing to a rate closer to wages growth or inflation. Some care must be taken in making this observation because of the nature of the longitudinal, which deals with those companies that are members of the S&P/ASX 100 at a point in time. This means that smaller companies that are new entrants to the index from year to year may drag down the overall remuneration figures compared to the sample of companies that have been members of the index over several years. Separate ISS research found that the average rate of increase in director fees in the 55 companies that were members of the S&P/ASX 100 continuously between 2001 and 2006 was 12.6 percent per annum for non-executive directors and 14.7 percent per annum for non-executive chairpersons. It should also be noted that 18 of the 26 largest ASX listed companies sought increases to their fee caps in 2007 or in the first half of 2008.

9.2 Remuneration of NEDs holding 4 Top 100 directorships…

One person in 2007 held four Top 100 board seats, down from 2006, where one NED held five Top 100 directorships and two held four. In 2005, four directors held four board seats and none held more than four; in 2004 two directors held five and four board seats respectively; and in 2003 one director held five Top 100 board seats and three held four. In 2007, the director holding four board seats (David Crawford) was paid $1,310,844 in total. This was up from one director holding five board seats being paid $732,767 in 2006, $611,274 in 2003 and $380,661 in 2002. However, given the limited sample size, inferences are harder to draw based on these results. For example, Don Argus, who held only two board seats during 2007 (chair of BHP Billiton and Brambles) received total remuneration of $1,580,582 for the 2007 year and another director, James Strong, who held three board seats (chair of IAG and Woolworths and director of Qantas) received total remuneration of $1,314,510 during the 2007 year.

Average Remuneration of Professional NED's holding 4 Top 100 directorships…	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*
Total income (across 4 listed companies)	$602,583	$655,175	$629,206	$742,601	$767,434	$841,037	*$1,310,844*[16]

Table 9.1. Remuneration of the NEDs holding 4 non-executive directorships in Top 100 companies

[16] Based on a sample of one director.

9.3 Remuneration of NEDs holding 3 Top 100 directorships…

In 2007 there were 32 individuals who held three non-executive directorships in Top 100 companies. These 32 directors held a total of 96 board seats in Top 100 companies.

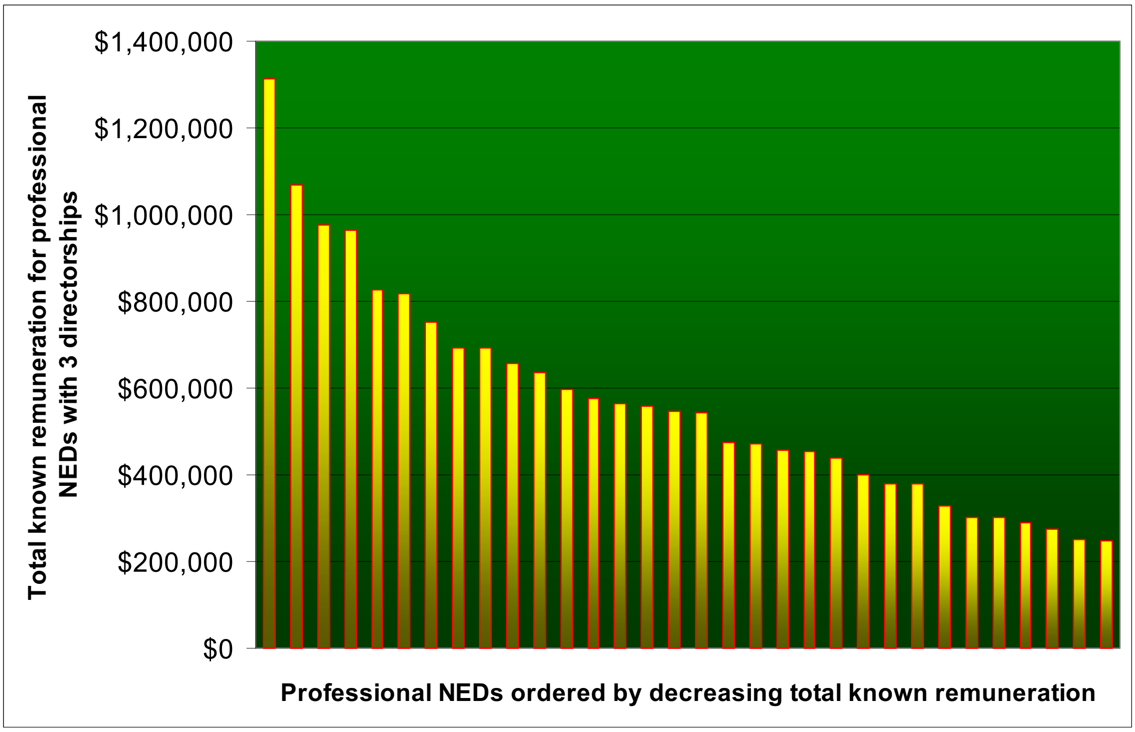

Figure 9.1. Total remuneration for professional NEDs holding three Top 100 directorships

Some of the features of the directors with three Top 100 board seats are:

- Eight of the 32 individuals (or 24 percent) were women.
- Mean total pay was $569,663. This was higher than the mean a year earlier ($522,158), in 2005 ($548,395), in 2004 ($436,515), 2003 ($379,465) and 2002 ($447,149).
- The maximum pay was $1,314,510 (received by James Strong, see above), up from $1,028,317 in 2006, $983,039, in 2005, $786,499 in 2004, $769,348 in 2003 and $1,019,476 in 2002.
- The lowest level of remuneration for a professional non-executive sitting on three Top 100 boards was $247,606, compared to $156,249 a year earlier, $225,719 in 2005, $228,000 in 2004, $123,000 in 2003 and $229,353 in 2002.

Remuneration of Professional NEDs holding 3 Top 100 directorships…	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*
Sample Size (Within Top 100 companies)	*16 individuals; 53 board seats*	*24 individuals; 72 board seats*	*14 individuals; 42 board seats*	*21 individuals; 63 board seats*	*23 individuals; 69 board seats*	*27 individuals; 81 board seats*	***32 individuals; 96 board seats***
Total remuneration	$5,870,712	$10,731,583	$5,312,513	$9,166,818	$12,613,075	$14,098,274	**$18,229,212**
Average remuneration per directorship	$110,768	$149,050	$126,488	$156,007	$182,798	$174,053	**$189,888**
Average remuneration per director	$366,919	$447,149	$379,465	$436,515	$548,395	$522,158	**$569,663**
Minimum remuneration for a professional NED	$202,364	$229,353	$123,000	$228,000	$225,719	$156,249	**$247,606**
Maximum remuneration for a professional NED	$771,411	$1,019,476	$769,348	$786,499	$983,039	$1,028,317	**$1,314,510**

Table 9.2. Remuneration of directors holding 3 non-executive directorships in Top 100 companies