HaRe Group newsletter: **12 August 2004**

Subject: **Executive pay update**

From time to time, there are media reports that provide worthwhile information on executive pay. This email summarises and comments on selected reports in recent weeks.

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NAB invests in executive trio (AFR & The Age, 12 August)
Ahmed Fahour and Michael Ullmer have joined John Stewart on NAB contracts that, collectively, may have the highest potential value in Australia. Along with the three year, $21.4 million contract for Mr Stewart, the four year contracts for Mr Fahour and Mr Ullmer could be worth $34 million and $14 million, respectively. Mr Fahour's contract includes deferred compensation of over $13 million in cash and equity for foregone remuneration from Citigroup. On commencement, Mr Ullmer will also receive $1 million in performance rights and options.

On top of a base package of $1.5 million p.a., Mr Fahour is entitled to a further $1.95 million if EVA growth and other "selected" targets are met. Mr Ullmer will receive a base package of $1 million, plus a further $1 million if his performance targets are met. At least half the annual incentive payments will be paid in NAB shares.

Mr Fahour and Mr Ullmer will also be eligible to receive equity in annual grants of $1.7 and $1.3 million, respectively. All performance rights and options are exercisable depending on NAB's TSR performance ranking within two comparator groups. This arrangement is the same for Mr Stewart. (See *Executive Pay Update*, 3 June 2004).

Bonus season for bankers (The Age, 27 July)
Strong profits in the banking sector and the increasing demand for talented people are behind the push for higher bonus payments later this year. Bank executives know that headhunters are promising more money and brighter career prospects elsewhere. Specialists in mergers & acquisitions and equity marketing are in most demand. Bonus increases of 30-50% are expected, but this may not be enough to keep the best people.

Governance failing (AFR, 26 July)
AMP Capital Investors has said that too many remuneration schemes approved by shareholders do not have adequate performance hurdles, lack information, or were too short term. AMPCI has reported that it abstained or voted against half of the incentive pay proposals in the first half of 2004. These proposals did not help improve investor returns.

Daimler executives offer to take a pay cut (AFR, 20 July)
DaimlerChrysler's top executives in Germany are looking for cost reductions of about A$850 million. They have already threatened a 3% cut in the workforce and have suffered the backlash of work stoppages across the country. Workers blame executive-level decisions for poor performance, not high labour costs. (Average manufacturing labour costs US$33 per hour, compared to US$22 in the USA).

In response to this criticism, executives have offered to take a pay cut, reported by German newspaper *Bild am Sonnag* as 10%. A DaimlerChrysler spokesman did not confirm this amount, or say how much the cut would save the company.

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DJs chief has lots of options in store (AFR Rear Window, 12 July)
David Jones has continued the practice of using shares to provide a long-term incentive (LTI) for over 30 DJs executives participating in the company's LTI Plan, which was approved by shareholders last November 2003. Subject to significantly exceeding certain performance hurdles, CEO, Mark McInnes, will be offered 444,444 ordinary shares on 31 July 2005. A further 394,521 shares will be available 12 months later.

In the Notice of Meeting for the 2003 AGM, two performance measures were defined as Capital Management (return on funds employed, RoFE) and Total Shareholder Return (TSR). If RoFE meets or exceeds 15%, then each participant in the LTI Plan will be offered 50% to 150% of half their share allocation. TSR performance is assessed by ranking against a peer group of companies. At median TSR, participants will be offered 50% of half their share allocation. These executives will receive incrementally more shares as DJs TSR ranking improves: at the 62nd percentile, they will be offered 100% of half their allocation; at the 75th percentile, they will be offered 150%.

Comment
Performance measurement continues to be prominent in media reports about executive pay. In response to investors' demands for more accountability, company boards and their executive teams are focussing more on longer term performance. Executives are more likely to be recognised for their strategic achievements when shareholder returns improve.

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