



Australian
Shareholders'
Association

UNDERSTANDING THE REMUNERATION REPORT



Why KMP remuneration is an important issue for shareholders

- ▶ “ASA’s voting and engagement guidelines are a tool for establishing a direct link between appropriate executive reward structures through remuneration, with company performance and reward to shareholders.”
- ▶ The Two-Strikes Rule – If 25% or more shareholders vote against the company’s remuneration report two years in a row, a board spill is initiated.
- ▶ The most important element of any remuneration structure is to attract and retain superior executive talent which operates in an environment with long-term financial alignment with shareholders.
- ▶ ASA expects financial performance, corporate governance, shareholder reward and executive remuneration to have a logical relationship.



Common short-term and long-term incentive plans

- ▶ This is a portion of the total executive remuneration that is paid to executives if they meet certain short-term hurdles.
- ▶ Usually, short-term incentives are paid in cash though it is more common now to see a deferred payment with a percentage in cash and a percentage in company shares.
- ▶ ASA prefers that at least 50% of any STI award should be paid in equity with a minimum 12-month holding lock. Up to 50% can be paid as cash.
- ▶ The long-term incentive is usually paid out in performance rights that vest over a period of years.
- ▶ Most commonly, vesting periods last between three to four years in Australian companies but ASA prefers a longer vesting period with a minimum four-year lock.
- ▶ Shareholders value LTIs more than executives as it has been indicated that executives tend to devalue LTIs because the outcome is more uncertain.
- ▶ LTI plans commonly have significant hurdles defined over measures like relative Total Shareholder Return and Earnings Per Share.



ASA Guidelines for Remuneration

- ▶ Points 19-36 in the ASA Voting and Engagement Guidelines
- ▶ Issues covered include the remuneration report, CEO remuneration, short-term incentives, long-term incentives, retesting of incentives, relative TSR, negative TSR and absolute TSR, dividends on performance rights, on-market purchases vs newly issued equity, ASA's opposition to underlying earnings as a performance metric, other LTI performance hurdles, executive sign-on benefits, retention payments, termination payments, treatment of incentive schemes in takeovers, calculation and valuation of share grants, acquisition of shares by directors under an incentive scheme, loans to executives, voting in relation to the "two strikes" regime



Fair value vs face value of shares

AMP changed from using fair value to face value

What is the chief executive officer's proposed LTI for 2015?

The board is proposing that AMP grant Craig Meller performance rights with a face value of 225% of his fixed remuneration as his LTI for 2015 (2015 grant). Given that Craig Meller's fixed remuneration for 2015 is \$1,750,000, this equates to a grant of performance rights with a face value of \$3,937,500. This value was determined having regard to market data from an independent external consultant and is in line with the board's desired positioning of Craig Meller's remuneration relative to remuneration paid to CEOs of comparable companies and industry peers.

Importantly, there has been no increase in Craig Meller's LTI opportunity since last year. The \$3,937,500 figure above is based on the face value of AMP's shares, rather than the more detailed accounting valuation that was previously used to value Craig Meller's LTI awards.

If the previous fair value accounting methodology is applied to this year's award, the value of this year's award would be approximately \$2,187,500 (or 125% of Craig Meller's fixed remuneration, consistent with the 2014 LTI award that was approved by shareholders last year).

Percentage of fixed remuneration increases from 125% to 225% to compensate for the change

If fair value was used, the disclosed "value" of the award would be lower



Start with Remuneration Report

We are looking at how the company determines how many performance rights to grant under an LTI plan, so the starting point is the disclosure on LTI

LTI award opportunities

Brian Hartzler did not receive any awards under the CEO LTI Plan related to his appointment as CEO. No awards were made in 2015 to Gail Kelly (former CEO) under the CEO Performance Plan.

Group Executives receive annual LTI awards in the form of share rights under the Westpac LTI Plan. A share right is not a Westpac share and does not attract the payment of dividends.

At the beginning of each year, the Board, advised by the Remuneration Committee, sets the dollar value of the LTI award target for each Group Executive.

Look for headings like this

Westpac LTI Plan – Granted after 1 October 2014	
Equity instrument	Share rights – the Board has the discretion to satisfy vested grants and the allocation of subsequent shares to participants by either the issue of new shares or the on-market purchase of shares, or as a cash payment. One share right entitles the holder to one ordinary share at the time of vesting at a nil exercise cost.
Determining the number of securities	The number of share rights each individual receives is determined by dividing the dollar value of the LTI award by the value of the share rights at the beginning of the performance assessment period (performance period). The value of share rights is determined by an independent valuer taking as a starting point the market price of Westpac shares at grant, and utilising a Monte Carlo simulation pricing model, applying assumptions based on expected life, volatility, risk-free interest rate and dividend yield associated with the securities and the risk of forfeiture attributed to each performance hurdle. The value of a share right may be different for TSR hurdled share rights than for EPS hurdled share rights.
Performance hurdles	In December 2014 on the transition from a three to four year performance and vesting cycle, Group Executives were allocated both the 2014 LTI allocation vesting in 2017 and the 2015 LTI allocation vesting in 2018. The LTI grants retain dual TSR and EPS hurdles which are detailed below. The TSR data is averaged over the three months preceding the measurement date. Together, the use of these two hurdles is intended to provide a balanced view of the Group's overall performance and provide strong alignment with shareholder interests.

What is the value of the LTI award divided by - is it the value of share rights or a VWAP?

References here to the Monte Carlo simulation and the Black-Scholes model mean a “fair value” is used



The statutory table

Companies are required to show a remuneration table that is compliant with accounting standards

APPENDIX 1. STATUTORY REMUNERATION DISCLOSURE REQUIREMENTS

I. Total remuneration for Executives

Statutory remuneration details for Executives as required by Australian Accounting Standards are set out below:

TABLE 14 - STATUTORY REMUNERATION DETAILS (EXECUTIVES)

	SHORT TERM EMPLOYMENT BENEFITS		POST EMPLOYMENT BENEFITS	OTHER LONG TERM EMPLOYMENT BENEFITS	TERM INATION BENEFITS	SUB-TOTAL	SHARE BASED PAYMENT		TOTAL	AT-RISK REMUNERATION PAID	
	Base salary	Cash STI	Leave accruals and other benefits	Long service leave accruals			Value of deferred STI	Value of rights granted		As a % of total reward	
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	%	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)			
EXECUTIVES											
Peter Harmer ⁽⁹⁾											
2017	1,665	1,139	(8)	35	25	-	2,856	307	1,139	4,302	60
2016	1,425	905	16	35	54	-	2,435	313	1,016	3,764	59
Julie Batch ⁽¹⁰⁾											
2017	632	353	(21)	30	10	-	1,004	111	267	1,382	53
2016	326	153	16	17	18	-	530	110	171	811	54
Chris Bertuch ⁽¹⁰⁾											
2017	665	375	(14)	35	10	-	1,071	118	302	1,491	53
2016	380	138	25	20	8	-	571	131	195	897	52
Ben Bessel ⁽¹¹⁾											
2017	670	308	23	30	10	-	1,041	96	285	1,422	48
2016	656	271	(5)	30	36	-	988	86	156	1,230	42
Duncan Brain											
2017	908	508	327	35	14	-	1,792	1,090	723	3,605	64
2016	899	532	245	35	16	-	1,727	815	719	3,261	63
David Harrington ⁽¹⁰⁾											
2017	565	322	(6)	35	9	-	925	113	276	1,314	54
2016	326	160	29	20	4	-	539	96	163	798	53
Nicholas Hawkins											
2017	1,143	643	8	30	17	-	1,841	293	853	2,987	60
2016	996	593	(35)	30	(13)	-	1,571	341	977	2,889	66

Look for references to accounting standards

Reference to "share based payment" only appears in the statutory table

Table includes a "fair value" for share based payments such as performance rights. This "fair value" is an accounting concept (see [AASB13](#))



The statutory table continued

- (1) Base salary includes amounts paid in cash plus the portion of the Group's superannuation contribution that is paid as cash instead of being paid into superannuation, salary sacrifice items such as cars and parking, as determined in accordance with AASB 119 Employee Benefits.
- (2) Cash STI represents the amount to be settled in cash in relation to the financial year from 1 July 2016 to 30 June 2017.

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- (3) This column includes annual and mid-service leave accruals, 30% tax rebate on car allowances for certain KMP who have salary sacrifice arrangements on cars and other short term employment benefits as agreed and provided under specific conditions. Other benefits provided under specific conditions for KMP are provided as follows: Duncan Brain: accommodation allowances, airfares for home visits and medical insurance; and Craig Olsen: salary continuance insurance.
 - (4) Superannuation represents the employer's contributions.
 - (5) Long service leave accruals as determined in accordance with AASB 119.
 - (6) Payment in lieu of notice which incorporates statutory notice and severance entitlements.
 - (7) The deferred STI is granted as DARs and is valued using the Black-Scholes valuation model. An allocated portion of unvested DARs are included in the total remuneration disclosure above. The deferred STI for the year ended 30 June 2017 will be granted in the next financial year, so no value was included in the current financial year's total remuneration.
 - (8) This value represents the allocated portion of unvested EPRs. To determine the value of EPRs, a Monte Carlo simulation (for the relative TSR performance hurdle) and Black-Scholes valuation (for the cash ROE performance hurdle) have been applied. The valuation takes into account the exercise price of the EPR, life of the EPR, price of IAG ordinary shares as at the grant date, expected volatility of the IAG share price, expected dividends, risk free interest rate, performance of shares in the peer group of companies, early exercise and non-transferability and turnover which is assumed to be zero for an individual's remuneration calculation.
 - (9) Peter Harmer was appointed Group CEO on 16 November 2015. His remuneration increased upon his appointment.
 - (10) Executive Team members were appointed to KMP roles on 8 December 2015.



Is there another table?

Look for a comparison to the statutory table

6 Actual remuneration earned in FY15

This year's remuneration reflected our ongoing commitment to paying for performance. Strong FY15 business performance resulted in increased STI payouts, but LTI vesting was substantially lower than FY14.

The following table sets out the actual value of the remuneration earned by Executive KMP members during the year. The figures in this table are different from those shown in the accounting table in section 12 because that table includes an apportioned accounting value for all unvested LTI grants during the year (some of which remain subject to satisfaction of performance and service conditions and may not ultimately vest). The table below, on the other hand, shows the LTI value based on the awards that actually vested as a result of performance in FY15.

The table below presents:

- **Fixed remuneration;**
- **Cash STI:** the non-deferred portion of STI payments to be made in September 2015 in recognition of performance during FY15;
- **Deferred STI realised:** the value of the deferred STI from prior years that was realised in FY15; and
- **LTI:** the value to the participant during FY15 of performance rights whose performance period ended 30 June 2015.

Actual remuneration paid in FY15

Executive KMP	Year	Fixed remuneration \$	Cash STI \$	Deferred STI realised \$	LTI \$	Employee loans ¹ \$	Termination benefits \$	Other ² \$	Total \$
Susan Lloyd-Hurwitz	2015	1,500,000	1,381,641	212,926	767,963	-	-	24,046	3,886,576
	2014	1,500,000	1,160,156	-	-	-	-	134,938	2,795,094
Andrew Butler	2015	700,000	550,200	76,313	337	-	-	10,977	1,337,827
	2014	700,000	415,800	-	14,163	600,159	-	319,418	2,049,540
John Carfi ³	2015	700,000	481,425	-	21,051	-	-	11,353	1,213,829
Brett Draffen	2015	950,000	933,375	118,829	331,872	-	-	15,368	2,349,444
	2014	900,000	647,460	-	817,353	581,835	-	464,702	3,411,350
Shane Gannon	2015	900,000	707,400	67,149	-	-	-	234,685 ⁴	1,909,234
	2014	527,962	365,878	-	-	-	-	355,614	1,249,454
Susan MacDonald ³	2015	700,000	481,425	-	379,836	-	-	11,353	1,572,614
David Rolls ³	2015	700,000	481,425	-	-	-	-	11,353	1,192,778

1) Amount reported includes amounts forgiven during the year, imputed interest and related fringe benefits tax ("FBT").

2) Includes long service leave accrued during the year.

3) Appointed to a KMP position effective 1 July 2014.

4) Includes a payment of \$220,000 as part compensation for the STI and LTI entitlements he forfeited on resigning from his previous employer.

Words such as "actual", "cash", "realised" or "take home" in the heading will tell you this is the actual remuneration table

Dissecting the actuals table

Only awards *realised* in the financial year are included

Fixed remuneration
NOT split into
salary, super and
non-cash benefits

This should be the same
as the stat
table

Value of STI
deferred from prior
years (calculated
using a VWAP)

Value of LTIs of performance
rights whose performance
period ended in the FY

Compare the
LTI value of
rights - this is
the main
distinction
between the
tables

Executive KMP	Year	Fixed remuneration \$	Cash STI \$	Deferred STI realised \$	LTI \$	Employee Termination loans ¹ \$	benefits \$	Other ² \$	Total \$
Susan Lloyd-Hurwitz	2015	1,500,000	1,381,641	212,926	767,963	-	-	24,046	3,886,576
	2014	1,500,000	1,160,156	-	-	-	-	134,938	2,795,094
Andrew Butler	2015	700,000	550,200	76,313	337	-	-	10,977	1,337,827
	2014	700,000	415,800	-	14,163	600,159	-	319,418	2,049,540
John Carfi ³	2015	700,000	481,425	-	21,051	-	-	11,353	1,213,829
Brett Draffen	2015	950,000	933,375	118,829	331,872	-	-	15,368	2,349,444
	2014	900,000	647,460	-	817,353	581,835	-	464,702	3,411,350
Shane Gannon	2015	900,000	707,400	67,149	-	-	-	234,685 ⁴	1,909,234
	2014	527,962	365,878	-	-	-	-	355,614	1,249,454
Susan MacDonald ³	2015	700,000	481,425	-	379,836	-	-	11,353	1,572,614
David Rolls ³	2015	700,000	481,425	-	-	-	-	11,353	1,192,778

1) Amount reported includes amounts forgiven during the year, imputed interest and related fringe benefits tax ("FBT").

2) Includes long service leave accrued during the year.

3) Appointed to a KMP position effective 1 July 2014.

4) Includes a payment of \$220,000 as part compensation for the STI and LTI entitlements he forfeited on resigning from his previous employer.

Am I looking at the statutory table?

Where companies include both tables, the statutory table is usually towards the end

6. Mandatory disclosures in detail

Statutory remuneration disclosures

Remuneration for Executive KMP for FY15 and FY14 is shown in the tables below.

Year	Short-term benefits			Post-employment		Other long-term benefits ²²			Total \$'000	
	Base salary and fees \$'000	Non-monetary benefits \$'000	STI cash ²³ \$'000	Super-annuation benefits \$'000	Termination benefits \$'000	STI deferral \$'000	LTI awards \$'000	Long service leave \$'000		
Executive Director										
M L Palmquist	2015	1,189	206	682	-	-	341	84	20	2,522
	2014	-	-	-	-	-	-	-	-	-
Executive KMP										
A G Bell	2015	555	6	264	19	-	160	63	10	1,077
	2014	541	5	196	18	-	150	62	10	982
G A Friberg	2015	554	21	368 ²⁴	8	-	195	38	-	1,184
	2014	462	20	584 ²⁵	6	-	117	24	-	1,139
B Ivanoff	2015	386	-	194	29	-	130	45	-	745
	2014	376	-	180	28	-	124	42	-	726
A N Johns	2015	484	-	354	29	-	177	5	-	1,049
	2014	422	15	165	25	-	116	46	-	774
K Pamminger	2015	457	-	162	30	-	240	55	-	884
	2014	440	-	181	27	-	277	11	-	855
S J Tainsh	2015	485	5	255	31	-	171	59	9	1,015
	2014	465	5	222	30	-	194	56	8	980
Total	2015	4,110	238	2,279	146	-	1,414	398	76	8,661
	2014	2,706	45	1,528	134	-	1,048	241	52	5,754

This table is included with other disclosures required by the Corporations Act

Look for references to the accounting standards in the footnotes

²² The value of STI deferral and LTI awards represents the accounting value, rather than the cash value to participants. It includes the value of equity grants for LTI Plan and Deferred Equity Plans. It also includes the accounting value of the deferred cash based awards put in place of deferred equity.

²³ The accounting value of short term incentive deferred share rights / deferred cash is reflected in the 'STI deferral' column.

Comparing the actuals table

Total reward

The table below outlines the Executive KMP remuneration outcomes for FY15.

The information contained in this table is different from the statutory disclosures in Section 6 (which are based on the accounting standards), as it reflects only remuneration that was actually awarded or vested during the 12 month period, while the statutory disclosures also include the value of conditional awards that may or may not vest.

The STI values represent the cash portion of awards earned in FY15 (but paid in December 2015) and the vested portion of deferred awards from FY13 and FY14. The LTI value represents the value of vested amounts from FY13 grant.

As the actuals table is not based on accounting standards, practices may differ - here Graincorp has included amounts earned but not yet paid

	TFR ¹² \$'000	Cash STI earned in FY15 \$'000	Other Benefits \$'000	Deferred STI vesting in FY15 \$'000	LTI vested in FY15 ¹³ \$'000	Total \$'000
Executive Director						
M L Palmquist	1,190	682	205 ¹⁴	-	-	2,077
Executive KMP¹⁵						
A G Bell	579	264	1 ¹⁶	163	169	1,176
G A Friberg ¹⁷	583	368	-	95	-	1,046
B Ivanoff	415	194	-	119	111	839
A N Johns	513	354	-	132	132	1,131
K Pamminger	487	162	-	347	-	996
S J Tainsh	521	255	-	243	153	1,172
Total	4,288	2,279	206	1,099	565	8,437

Total CEO rem lower as no LTIs vested in the year and no "fair value" amount included



What should the actual
remuneration table
ideally show?



What should the table show?

Remuneration outcomes for the year

- ▶ Fixed remuneration
- ▶ Cash STIs received
- ▶ Deferred STIs from prior years
- ▶ LTIs vested in the year
- ▶ Other remuneration



A template table of actual remuneration

KMP name	Fixed remuneration	Cash STI	Deferred STI realised	LTI vested	Other remuneration	Total remuneration
<i>The table should cover all persons listed as KMP at any time during the year (not just the CEO)</i>	<i>This would include salary, non-monetary benefits and superannuation contributions</i>	<i>This is the non-deferred portion of STI payments actually paid to the executive in the financial year</i>	<p><i>The value of any deferred and unrestricted STIs from prior years that vested and was realised by the executive in the financial year</i></p> <p><i>This should be calculated as the face value of shares vested on the date of vesting (based on VWAP or closing share price on the vesting date)</i></p>	<p><i>The value of performance rights/options awarded in prior years that vested in the financial year</i></p> <p><i>This should be calculated as the face value of the award at the date of vesting (based on VWAP or closing share price on the vesting date)</i></p> <p><i>If necessary, explain any share price gains</i></p>	<p><i>This would include any loans forgiven, fringe benefits tax and long service entitlements</i></p> <p><i>Any substantial amounts such as termination payments and one-off payments should be explained or listed in a separate column</i></p>	<i>This represents the actual total remuneration received by the executive in the financial year, being the sum of the prior columns</i>

A good example *IAG 2017 Annual Report*

- (1) Fixed pay includes amounts paid in cash, superannuation contributions plus the portion of the Group's superannuation contribution that is paid as cash instead of being paid into superannuation. Fixed pay also includes salary sacrifice items such as cars and parking as determined in accordance with AASB 119 Employee Benefits.
- (2) Further details are provided in table 14 in Appendix 1. Statutory remuneration disclosure requirements.
- (3) Payment in lieu of notice, which incorporates statutory notice and severance entitlements.
- (4) Cash STI earned within the year ended 30 June 2017 and to be paid in September 2017.
- (5) The deferred STI vesting on 1 September 2016 was valued using the five day weighted average share price \$5.60 (1 September 2015: \$5.14).
- (6) The LTI vested was valued using the five day weighted average share price at vesting date which was \$5.90 for awards vested on 22 August 2016 and \$5.46 for awards vested on 30 September 2016 (24 August 2015: \$5.50 and 30 September 2015: \$4.84).
- (7) Remuneration for Jacki Johnson was determined in New Zealand dollars and reported in Australian dollars for the period between 1 July 2015 and 31 December 2015 using the average exchange rate for the year ended 30 June 2016, which was 1 NZD = 0.91957 AUD.
- (8) Remuneration for Craig Olsen was determined in New Zealand dollars and reported in Australian dollars using the average exchange rate for the year ended 30 June 2017 which was 1 NZD = 0.94497 AUD.
- (9) Claire Rawlins was a KMP for the period up to 7 December 2016. Claire Rawlins received a payment in lieu of notice of \$600,000, equivalent to 12 months' fixed pay, under the terms of her contract upon her termination.



A good example *Insurance Australia Group 2017 Annual Report*

TABLE 9 - ACTUAL REMUNERATION RECEIVED IN 2017 AND 2016

	FINANCIAL YEAR	FIXED PAY \$000 (1)	OTHER BENEFITS AND LEAVE ACCRUALS \$000 (2)	TERMINATION BENEFITS \$000 (3)	CASH STI \$000 (4)	DEFERRED STI VESTED \$000 (5)	LTI VESTED \$000 (6)	TOTAL ACTUAL REMUNERATION RECEIVED \$000
EXECUTIVES								
Peter Harmer	2017	1,700	17	-	1,139	288	697	3,841
	2016	1,460	70	-	905	311	1,428	4,174
Julie Batch	2017	662	(11)	-	353	110	111	1,225
	2016	343	34	-	153	-	-	530
Chris Bertuch	2017	700	(4)	-	375	129	127	1,327
	2016	400	33	-	138	-	-	571
Ben Bessell	2017	700	33	-	308	82	91	1,214
	2016	686	31	-	271	83	161	1,232
Duncan Brain	2017	943	341	-	508	217	620	2,629
	2016	934	261	-	532	154	273	2,154
David Harrington	2017	600	3	-	322	112	125	1,162
	2016	346	33	-	160	-	-	539
Nicholas Hawkins	2017	1,173	25	-	643	327	697	2,865
	2016	1,026	(48)	-	593	318	1,428	3,317
Jacki Johnson ⁽⁷⁾	2017	1,091	(40)	-	524	240	644	2,459
	2016	1,053	92	-	585	252	1,286	3,268
Anthony Justice	2017	690	(6)	-	375	71	-	1,130
	2016	372	(6)	-	156	-	-	522
Mark Milliner	2017	1,000	22	-	536	-	-	1,558
	2016	181	20	-	-	-	-	201
Craig Olsen ⁽⁸⁾	2017	711	33	-	381	74	79	1,278
	2016	330	36	-	124	-	-	490
Clayton Whipp	2017	775	11	-	310	153	127	1,376
	2016	784	64	-	415	117	243	1,623
EXECUTIVES WHO CEASED AS KEY MANAGEMENT PERSONNEL								
Claire Rawlins ⁽⁹⁾	2017	250	(15)	600	126	-	-	961
	2016	341	32	-	152	-	-	525