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I'm very pleased the report is being produced. The methodology is credible. The purchase process experience was very good. In short – this is a great product.

ALISON GAINES, GENERAL MANAGER, ASIA PACIFIC, GERARD DANIELS #
Last year our report focussed on the executive remuneration of the top 900 Australian listed businesses. This year, we decided to up the ante and are pleased to present the findings for an additional 500 businesses.

Our purpose in developing this report is to provide an independent, credible benchmark study to Executives and Board members across corporate, mid-tier and junior listed companies in Australia on Board and Executive remuneration. We aim to guide the development of executive pay arrangements to ensure Executives create value with shareholders (and other stakeholders) and not from them.

The BDO Board & Executive Remuneration Report 2018 is the most comprehensive report of its kind produced in Australia. It incorporates over 1,400 ASX listed companies (substantially more than any other executive pay report produced in the country), representing well over 11,000 incumbents across a number of Executive Director, Key Management Personnel and Non-Executive Director roles. The hard data is based on disclosed information from the most recent 2017 annual reports, grouped into select 10 market categories in terms of each company’s market capitalisation as at January 2018.

Board and Executive remuneration is well publicised for large blue chip companies. We expect this trend to trickle down to juniors and mid-cap tier listed companies where there is a lack of equivalent affordable, granular and credible remuneration data available for defensible decision making.
EXECUTIVE SUPPLEMENTARY REPORT

This supplementary report is an abridged version which only provides some ‘high-level’ commentary and data for Chief Executive Officer (CEO) and Chief Financial Officer (CFO) roles.

FULL REPORT

The full report provides insights across 11 additional roles including; Non-Executive Chairman, Non-Executive Directors, Chief Operating Officer, Business Unit leader, Company Secretary, Chief Legal Officer, Chief Information Officer, Chief Geological Officer, Exploration and Business Development Executive, Sales and Marketing Executive, Chief Commercial Officer and Chief Human Resources Officer.

The report provides insights not just in terms of the roles but also relevant content across select industries and scale in terms of market capitalisation.

The report will be particularly helpful for Boards to determine and understand how their Executives and Non-Executives are remunerated in relation to their peers.

We appreciate the full report is not for everyone and invite you make contact with us to gain insights for a specific industry, or specific size business (or both). We would be delighted to talk to you about insights specific and tailored to your business interests.

OTHER SERVICES

In addition to our extensive remuneration databases, BDO have significant expertise and understanding gained from working with many mid-cap and junior ASX companies during all stages of transition; from private companies, in preparation for IPO, and then as a listed business.

Our integrated and seamless approach includes remuneration expertise, governance and tax planning, making us the preferred provider in supporting companies to plan and execute effective remuneration approaches.

We trust that you will find the information in this supplementary report useful, and welcome any thoughts or questions you may have.

The team involved in developing this report is shown on page 29 of this report. Please feel free to make contact for any further remuneration or executive pay support.

Thank you,

Allan Feinberg
Managing Director
BDO Remuneration and Reward Services
Direct: +61 8 6382 4989
Mobile: +61 418 575 725
allan.feinberg@bdo.com.au
MARKET REMUNERATION PAY LEVELS BY ROLE

The remuneration values disclosed are denoted in Australian Dollars. We have provided some sample data relating to Total Fixed Remuneration packages i.e. base salary, statutory superannuation contributions and benefits for Chief Executive Officers and Chief Financial Officers in this report.

MARKET REMUNERATION PAY LEVELS BY SIZE OF BUSINESS

Our analysis incorporates a sample of over 1400 organisations. A notion supported by most commentators is that top executive pay should reflect the size and complexity of the executive role. Throughout this report we categorise the data in terms of market capitalisation, as a proxy for scale and complexity, as this approach is widely adopted in the industry. However, other criteria such as revenue, assets, sector and geography should also be considered. We have analysed the data in terms of geography (states) and sector in our main report.

The 5 market capitalisation categories applied are as follows (right):

**TIER 1**
Companies with a market capitalisation greater than $3 billion (96 organisations)

**TIER 2**
Companies with a market capitalisation between $600 million and $3 billion (114 organisations)

**TIER 3**
Companies with a market capitalisation between $125 million and $600 million (227 organisations)

**TIER 4**
Companies with a market capitalisation between $25 million and $125 million (391 organisations)

**TIER 5**
Companies with a market capitalisation up to $25 million (529 organisations)
MARKET REMUNERATION PAY LEVELS
BY VARIANCE

In addition to the specific role reported on and the industry classification, we have also presented the data across the specific position in terms of the following variances:

LOWER QUARTILE (P25th) The 25% of companies in the marketplace that pay less than 75% of companies in the marketplace.

UPPER QUARTILE (P75th) The 25% of companies in the marketplace that pay more than 75% of companies in the marketplace.

MEDIAN (P50th) The point at which 50% of the companies in the marketplace pay more than the other 50% of companies in the marketplace.

INTERQUARTILE RANGE (IQR) i.e. the difference between the lower quartile (P25th) and the upper quartile (P75th).

“it was an excellent report

TONY ADCOCK, EXECUTIVE CHAIRMAN AT FOOD, FIBRE & LAND INTERNATIONAL GROUP, NON-EXECUTIVE DIRECTOR AUSTRALIAN EQUITY CROWDFUNDING PTY LTD #

# TESTIMONIALS GAINED ARE OF THE 2017 VERSION OF THE REPORT.
CHIEF EXECUTIVE OFFICER

CEO MEDIAN TOTAL FIXED REMUNERATION

Total Fixed Remuneration (TFR: base salary, company, statutory, superannuation contributions and benefits) at CEO level vary dramatically. Clearly demonstrated through the graph on the right, is that larger companies pay their CEO’s substantially more than smaller companies do.

What is interesting to note, is that the interquartile range (IQR) is relatively high which indicates that there is a considerable spread of remuneration packages on either side of the market median. This infers that the range of remuneration paid as well as the median of these sample ranges should be considered in greater depth when devising effective remuneration benchmarking structures.

DEMAND FOR EXECUTIVE TALENT

For CEOs across Australia, Total Fixed Remuneration levels have remained generally static, however, forecasts for the Australian economy in 2018 are cautiously optimistic, driven by higher commodity prices, increased employment and business investment. These factors have resulted in notable improvements in the Australian economic outlook, such as:

- Indicative increases in business investment
- Increasing business confidence and conditions
- Relatively higher terms of trade from higher commodity prices
- A continued strengthening in employment.

The general view is that from interest rates and inflation will increase from 2018, encouraging investors to shift more capital into growth stocks and away from yield stocks. The requirement for higher returns and investments into higher growth and cyclical companies will result in a higher demand for executive talent and therefore higher rates of pay in these sectors.
**CEO Median Total Fixed Remuneration in Terms of Company Sectors**

Over and above company size as a determinant of executive pay, the table to the right show CFO TFR results by 10 major sectors. The graph is arranged from left to right in terms of the highest median remuneration to the lowest.

The data shows a spike in medium Utilities remuneration levels, potentially as a function of supply uncertainty and industry change, although this industry does represents a small sample size characterised by fairly large companies and so the actual reach for this spike is not conclusive.

It should also be noted that the interquartile range is relatively high for most sectors which indicates that significant variation across organisations within the same industry exists, potentially explained by organisational size. The lowest interquartile ranges occur in healthcare and mining, indicating less variation and, therefore, more consistency of remuneration positioning for Chief Executive Officer roles across these industries.

The upper quartile data indicates that the Materials Sector is paying significantly more than the other sectors although again the sector data comprises a small sample of large organisation respondents. Again, the inter-quartile range is relatively high, especially for the Materials Sector, indicating that significant variation exists within industry bands, potentially explained by organisational size differences. The healthcare sector has the least variation in CEO salary levels, with the lowest interquartile range.

There is a high level of variation in remuneration level by sector, despite the fact that the CEO role itself is one that might be viewed as somewhat universal across sectors.

<table>
<thead>
<tr>
<th>Sector</th>
<th>P25th</th>
<th>Median</th>
<th>P75th</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utilities</td>
<td>1,109</td>
<td>1,431</td>
<td>1,372</td>
</tr>
<tr>
<td>Real Estate</td>
<td>706</td>
<td>674</td>
<td>512</td>
</tr>
<tr>
<td>Consumer</td>
<td>534</td>
<td>450</td>
<td>274</td>
</tr>
<tr>
<td>Materials</td>
<td>512</td>
<td>465</td>
<td>255</td>
</tr>
<tr>
<td>Industrials</td>
<td>292</td>
<td>453</td>
<td>265</td>
</tr>
<tr>
<td>Finance</td>
<td>465</td>
<td>430</td>
<td>263</td>
</tr>
<tr>
<td>Healthcare</td>
<td>698</td>
<td>464</td>
<td>265</td>
</tr>
<tr>
<td>IT &amp; TC</td>
<td>458</td>
<td>494</td>
<td>216</td>
</tr>
<tr>
<td>Energy</td>
<td>356</td>
<td>458</td>
<td>171</td>
</tr>
<tr>
<td>Mining &amp; Metals</td>
<td>356</td>
<td>494</td>
<td>149</td>
</tr>
</tbody>
</table>

Graph 2: CEO Total Fixed Remuneration Across Sectors

Further breakdowns of additional positions and size of organisation by industry is presented in the full report.
CHIEF EXECUTIVE OFFICER (CONTINUED)

CEO MEDIAN TOTAL FIXED REMUNERATION BY STATE

It can be seen from the data chart that significant differences exist in Chief Executive Officer remuneration levels across states, potentially as a result of differential industry configuration and of state-based market factors.

Higher levels of variation within the P25 and P75 inter-quartile range exist in Queensland, NSW, and Victoria, inferring a higher level of variation in organisational size in those states.

Chief Executives in Western Australia are remunerated better than their peers in other states relative to organisational size. South Australian Chief Executives are also remunerated at relatively higher levels, but across fewer companies.

Graph 3: CEO: Total Fixed Remuneration by State
CHIEF FINANCIAL OFFICER

CFO TOTAL FIXED REMUNERATION

Once again as with CEO roles, Total Fixed Remuneration, and as one would expect, is higher for larger companies operating in more complex contexts, who pay their top executives more than smaller companies do.

What is interesting to note is that the inter quartile range is relatively lower than their CEO counterparts which indicates that there is less spread in remuneration packages paid on either side of the market median. This infers that the median of these samples should be relatively stable and effective for remuneration benchmarking purposes.

Graph 4: CFO: Total Fixed Remuneration

Again, remuneration levels exhibit variation by organisational size for CFO roles, but to a far less degree than for CEO roles.
CHIEF FINANCIAL OFFICER (CONTINUED)

CFO TOTAL FIXED REMUNERATION IN TERMS OF COMPANY SECTORS

The data indicates that the Materials Sector is paying significantly more than the other sectors although again the sector data comprises a small sample of large organisation respondents.

The healthcare sector has the least variation in CFO salary levels, with the lowest interquartile range.

There is a high level of variation in remuneration level by sector, despite the fact that the CEO role as previously mentioned, itself is one that might be viewed as somewhat universal across sectors.

Further breakdowns of additional positions and size of organisation by industry is presented in the full report.

For CFO roles, the Materials sector continues to pay the highest levels of remuneration.
CFO MEDIAN TOTAL FIXED REMUNERATION BY STATE

CFO total fixed remuneration levels are lowest in South Australia, particularly when compared by organisational size to Western Australian CFO Remuneration levels for far smaller organisations (South Australia median Market Capitalisation of $46M compared to Western Australia median of $26M). This may indicate differential local market conditions for CFO roles.

We are going through an IPO process. The prospectus due diligence process was extensive and we were looking for verification information to justify our executive and board remuneration packages. Your report was very helpful for this purpose.

BILLY FERREIRA, MANAGING DIRECTOR,
THE GO2 PEOPLE LTD

# - TESTIMONIALS GAINED ARE OF THE 2017 VERSION OF THE REPORT.
VARIABLE PAY

Variable or ‘at risk’ performance based pay is the combination of annual cash incentives, deferred bonuses, and long-term (share based) payments. It is generally recognised that guaranteed pay should be set at the requisite level to attract and (in part) retain and develop the skills required of executive talent. However, ‘at risk’ performance-based variable pay, by its very nature and name, should be designed to reward the performance of the individual / team over different time periods in achieving corporate objectives. It should also serve to align shareholder and executive interests, ensuring that executives make money with rather than from shareholders. In essence, variable pay should drive executives to strive to enhance company financial and operational performance and shareholder value.

Variable pay can be distilled into two elements:

- Performance contingent pay, a portion that is expected to accrue under most circumstances other than underperformance.
- Performance driven pay, a portion that results only under circumstances of outperformance; either against targets set, or in comparison to peer groups.

Practically, it would appear that outperformance is handsomely rewarded but that, with a few exceptions, underperformance is not penalised. It is almost as if executives are entitled to expect a reasonable performance bonus, even when not necessarily warranted.

We suggest that one of the reasons for this may be poorly crafted incentive programs with insufficient or unclear performance hurdles. These are often coupled with poorly executed or unclear performance management processes that do not enable the Board to ‘gate keep’ incentives to agreed levels for achievement of specific, defined business results. Further called into question are whether such schemes, on balance, genuinely achieve the purpose of executive and shareholder alignment or of enhancing executive motivation to achieve corporate goals.

It is essential that any incentive scheme be founded on achieving business strategy and objectives, and should thus enhance shareholder wealth. The increase in shareholder activism around Remuneration Reports and incentive payments has made this mandatory for Boards, and incentive programs for executives need to be designed with exceptional clarity to reward executives with, rather than at the expense of investors.
Substantial variation exists, as would be expected, across organisations by size, with larger organisations paying substantially more than smaller counterparts. Of note, however is the comparatively small difference between Total Annual Remuneration and Total Remuneration levels, inferring less actual accrual/payment made of deferred incentive opportunities when contrasted with stated policy positions where available.

It is possible that this is a result of shorter tenure periods (median 3.01 years for CEO roles) where variable pay programs may not have been realised. It may also be possible that, given economic or business circumstances, policy positions may not have been achieved.

Again, remuneration levels exhibit significant variation by organisational size for CFO roles, but to a far less degree than for CEO roles. Very little in the way of longer term incentive approaches appear to have been realised by CFOs in 2017 in Tier 3, Tier 4 and Tier 5 sized organisations.
Remuneration mix can be defined as the targeted relationship between performance (at risk or variable) pay and fixed pay. Within performance pay, this mix includes targeted short-term (annual) bonuses and targeted / expected long term (generally three years plus) accruals from long-term (equity share-based) incentives.

As a philosophy, fixed pay increases with the increasing size and complexity of the role, so that:

- The more senior the role, the more total expected pay should be oriented towards performance based variable pay (the targeted / expected value from short and long-term incentive pay);
- The more senior the role, the more performance based variable pay should be oriented towards pay for long-term sustainable performance rather than pay for short-term operational performance.

**CEO INCENTIVES**

Graph 7: CEO incentives (actual 2017 financial year)

**CFO INCENTIVES**

Graph 8: CFO Incentives actual 2017 financial year
REMUNERATION MIX – CEO’S VS CFO’S (CONTINUED)

The proportion of actual annual targeted bonus pay in the mix generally ranges from 5% to 44% for Chief Executive Officer and Chief Financial Officers respectively.

The aggregate long term incentive value generally ranges from 14% to 106% and 17% to 78% for Chief Executive Officers and Chief Financial Officers respectively.

The above pay mix percentages must be viewed with caution, however, as it not easy to establish whether the percentages of both the short–term and the long–term are in terms of on target or maximum targeted performances. Of interest here is not so much the policy on pay mix but how it turns out in practice. Policy positions for organisations across different sizes, states and industries are elaborated on further in the full report, as are comparisons made on pay data for each role within each sector based on company size.

EXECUTIVE PAY MULTIPLE

The growing pay gap between executives and front line workers is not only contributing to rising income inequality, but is also contrary to economic growth. Peter Drucker, an influential management thinker, suggested in 1977 that a lopsided pay balance erodes the teamwork and trust on which businesses depend. He believed that a 20-to-one ratio is the limit for managers who “don’t want resentment and falling morale to hit their companies”.

WHY IS THE CEO TO OTHER EXECUTIVES RATIO IMPORTANT?

Remuneration Committees should pay close attention to the ratios of CEO pay to other executive roles as ratios of leadership pay at companies in the same business sector and/or of the same size, can provide important information and insights. These ratios can be used as a starting point to assess issues such as retention, talent development, and succession planning, and can be managed in such a way as to manage perceptions of executive want in the marketplace.

A high ratio can be an indicator that the CEO is carrying too much of the company, that a disconnect exists between the pay practices for the CEO verse other senior executives, or that there is no succession plan in place. Having healthy internal equity with appropriate ratios of pay for leadership, and an eye on general market norms, is an important factor in talent acquisition and retention.
WHAT DOES THE CEO TO EXECUTIVE PAY MULTIPLE LOOK LIKE?

Our research shows that the CEO to Executive pay multiple increases as company size increases.

The same relationship is also evident across sectors.

<table>
<thead>
<tr>
<th>TIERS</th>
<th>Consumer</th>
<th>Energy</th>
<th>Finance</th>
<th>Healthcare</th>
<th>Industrials</th>
<th>IT &amp; TC</th>
<th>Materials</th>
<th>Mining</th>
<th>Utilities</th>
<th>R-Estate</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;$3b</td>
<td>T1</td>
<td>266%</td>
<td>291%</td>
<td>226%</td>
<td>231%</td>
<td>227%</td>
<td>251%</td>
<td>292%</td>
<td>245%</td>
<td>271%</td>
</tr>
<tr>
<td>$600m-$3b</td>
<td>T2</td>
<td>191%</td>
<td>182%</td>
<td>213%</td>
<td>165%</td>
<td>202%</td>
<td>237%</td>
<td>246%</td>
<td>180%</td>
<td>296%</td>
</tr>
<tr>
<td>$125m-$600m</td>
<td>T3</td>
<td>195%</td>
<td>164%</td>
<td>146%</td>
<td>153%</td>
<td>153%</td>
<td>169%</td>
<td>113%</td>
<td>109%</td>
<td>155%</td>
</tr>
<tr>
<td>Up to $125m</td>
<td>T4 / T5</td>
<td>174%</td>
<td>160%</td>
<td>123%</td>
<td>163%</td>
<td>146%</td>
<td>135%</td>
<td>108%</td>
<td>165%</td>
<td>198%</td>
</tr>
</tbody>
</table>
WHAT DOES THE CEO TO MEDIAN EMPLOYEE PAY MULTIPLE LOOK LIKE?

Growing pay gaps between executives and front line workers is not a phenomenon peculiar to Australia. For example, CEOs in the U.S. are paid around 300 times the median employee wage, those in the UK roughly 183 times, compared to Australia where the ratio is about 78 times.

Comparing the annual Total Fixed Remuneration package of the Chief Executive Officer to the median employee (relative to other organisations of similar size and industry) provides transparency and context whilst placing some ‘boundaries’ on the perceived escalation of remuneration rates at CEO level. The basic concept is that a high pay multiple is inequitable and indicates that the CEO is being overly rewarded at the ‘expense’ of other employees and potentially shareholders. By forcing disclosure, activists argue that companies will be coerced into lowering this multiple or face a backlash by investors, customers, and employees.

The Dodd–Frank Act is forcing U.S. firms to disclose this ratio from this year and the U.K. is contemplating similar legislation even though they are already subject to a variant of the CEO to employee pay multiple rule, requiring the disclosure of the Chief Executive’s remuneration compared to employees.

Blackrock, the world’s largest investor with over US$5 Trillion under management, wants to move beyond simply disclosing these pay ratios, to also regulating the multiple on some forms of pay. It recently wrote to over 300 UK companies to say it would only approve salary increases for top executives if worker wages increased by a similar amount.

IS THIS CEO TO EMPLOYEE PAY MULTIPLE REALLY RELEVANT?

The emergence of this requirement is as a result of seemingly low and stagnant employee pay in relation to the perception of excessive CEO pay. A direct comparison between CEO pay to employee pay:

• Is misleading and virtually meaningless if it fails to consider key differences between companies which includes their operating models, the type of jobs they employ for example, professional, skilled, semi-skilled etc., and the location of their workforce.

• Does not provide transparency around executive pay packages but rather an expensive line statistic that appears to be designed to embarrass remuneration committees and CEOs without providing the necessary context, for example, the realisable pay relative to multi-year company performance.

WHAT WOULD BE MORE RELEVANT?

It would be more beneficial to disclose how many employees are being remunerated at minimum and above minimum salaries and for the Board to present their plan on what they are doing to increase these salaries i.e. productivity increases through technology enhancements, upskilling employees etc. The mind set should not be about reducing executive pay but rather one of value creation i.e. what investments can be made to incentivise reform for the better of an organisation’s workforce and its bottom line.

In summary, if one of the objectives of the pay ratio requirement is to manage CEO pay lower, it is not yet clear how disclosure of the pay ratios will help assist in achieving this. The pay ratio is potentially yet another required executive remuneration disclosure; whether it has any significant impact on pay levels or pay design remains to be seen.

“
I thought the report was excellent and the most useful report in this area that I have used. We used it to benchmark remuneration for the board of an investee company. It assisted in making the process more objective and balanced.”

LIDDY McCALL, INVESTMENT DIRECTOR & FOUNDER, YUUWA CAPITAL #

# - TESTIMONIALS GAINED ARE OF THE 2017 VERSION OF THE REPORT.
CHALLENGING FEE PARADIGMS FOR ENTREPRENEURIAL GROWTH ENVIRONMENTS
BY ALLAN FEINBERG

IDEAL WORLD
In a perfect world, all Non executive directors (NEDs) would be appropriately paid, and small cap companies would be able to attract directors with the right skills and experience to ensure that their Board can function effectively for the benefit of all shareholders.

REALITY CHECK!
Unfortunately, financial constraints and the absence of the required skills increase the vulnerability of small-cap companies to bad governance standards. In many instances, the distinction between management and Board becomes blurred. This is not only a concern to shareholders, but it also creates anxiety for investors when looking at the company’s remuneration practices.

WHAT DOES THIS MEAN?
Increased regulation, depleting cash resources and volatile markets means that smaller cap companies need professional and seasoned Non-Executive Directors on their Boards. However, many explorers lack the cash to attract and retain them.

IS THERE A SOLUTION?
ASX governance principles emphasise the role that remuneration plays in the oversight function within a listed company. The principles state that companies “need to ensure that the incentives for Non-Executive Directors do not conflict with their obligation to bring an independent judgement to matters before the Board.”
**DOES THIS MEAN WE CAN GIVE EQUITY TO OUR NEDS OR NOT?**

You can, and there is regulatory and institutional support for it;

The **Australian Institute of Company Directors (AICD)** encourages the purchase of shares at market price by directors through the sacrifice of a portion of their fees under a company scheme. AICD also encourages schemes that ensure directors hold these shares so long as they are serving on the Board.

The **ASX Corporate Governance Council** states that "It is generally acceptable for Non-Executive Directors to receive securities as part of their remuneration to align their interests with the interests of security holders. However, Non-Executive Directors generally should not receive options with performance hurdles attached or performance rights as part of their remuneration as it may lead to bias in their decision making and compromise their objectivity."

The **Australian Council of Superannuation Investors (ACSI)** believes that directors should have sufficient skin in the game to provide alignment between both director and investor interests - although the correct level of holding varies in the views of investors. An emerging rule of thumb for NEDs is that they should have invested an amount equivalent to at least one year’s director fees, and some companies are now implementing minimum director holding measures.

**Glass Lewis**, the independent provider of global governance services, confirms that to protect the independence of NEDs, NED options should vest immediately and not be subject to performance hurdles. NED options should also be appropriately valued and the value of options granted and any cash received should be in line with NED remuneration levels for market index peers.

**Blackrock**, the world largest investment management company, says that smaller companies in development/exploration phase, such as mining companies, which typically have high cash burn rates and little or no income from operations, support the grant of options or share rights to NEDs where the options are issued in lieu of cash fees (as a cash saving measure), there are no performance conditions, full vesting occurs within 12 months of grant date.

**THE GOOD NEWS!**

The good news is that there is a solution to the dilemma facing small cap and developing companies who have to meet the same corporate governance benchmarks as the larger listed companies whilst trying to direct their limited cash resources into value increasing exploration.

**THE BDO NON-EXECUTIVE DIRECTOR PAY APPROACH**

BDO have developed an approach that determines an annual fixed fee taking into account a number of factors, including:

- The individual’s reputation, track record, experience, expertise, industry understanding and network reach
- The role which is to be performed by the individual i.e. main board chairperson, committee chairperson, committee member etc.
- The company’s dynamics i.e. size, complexity, competitors, ‘footprint’ etc.
- The market which is represented by a valid and reliable peer group.

As part of our process, we are able to determine what is ‘reasonable time’ for a NED to perform their duties based on the size and stage of the company's development. Once the aforementioned factors have been considered, we apply our BDO methodology, in addition to input from the company’s Board, to determine a total fixed annual fee.

The total fee package represents two components; the annual fixed Board fee and an equity component. This equity component has no performance conditions and does not increase the NED fee above that of the defined ‘BDO Market’. It aligns NED fees with the 'market' based on the time, responsibilities and calibre of the incumbent.

**SILVER LINING**

Contrary to belief, juniors and small cap companies do have the resources to attract, retain and motivate the right calibre of individual for their Boards in a manner that preserves the NEDs independence, and ensures that their interests are aligned with their shareholders.

For more information contact:

**Allan Feinberg**
Managing Director
BDO Remuneration and Reward Services
Direct  +61 8 6382 4989
allan.feinberg@bdo.com.au
Why do so many organisations do such a bad job of retaining people? Turnover can cost more than twice the annual salary of the higher paid, and at least half of the annual salary of any employee. These costs include termination payments, team productivity loss, knowledge or customer loss, disengagement prior to departure, vacancy management, and out-sourcing, on-boarding and upskilling a new-hire.

Many of these costs are largely hidden in our current approach to accounting and business operations. Finance professionals, with good reason, are uncomfortable with exploring costs outside the factors deemed tangible by regulators or their professional associations. Human Resources (HR) professionals are often not at the decision making table; their lack of financial literacy or business acumen can prevent them from making a useful contribution to the conversation.

HR'S HERITAGE IS A CONSTRAINTER RATHER THAN ENABLER OF BUSINESS OPERATIONS

There are continuing perceptions of the HR function being the ‘policy police’, compliance masters, purveyors of corporate gossip, or those answering ‘computer says no’ when asked about workforce informatics.

DO YOUR JOB!

Many leaders don’t realise what it is actually like working in their organisations, despite various ‘back to the floor’, ‘town hall’ or other initiatives that attempt to directly engage with staff. If they were to spend their time doing what they should be doing - articulating and executing a consistent and effective strategy, engaging and managing stakeholders, and enabling their middle management structure to operate unfettered - their efforts would have a far greater impact on engagement and retention. Taking a longer term view is essential for Executives, but is challenging to effect when their own roles may, for whatever reason, be subject to shorter tenure.

EMPLOYEES ARE NOT OUR GREATEST ASSET!

Tired phrases like ‘employees are our greatest asset’ and ‘being an employer of choice’ sound hollow and false in a workplace that has recently undergone change without reference to, or with insincere consultation with its ‘greatest asset’. We work in an employment market with high expectations, talent mobility and instant access to information. Inconsistent, unclear, opposing, duplicitious, and unrealistic strategic initiatives demotivate and disengage the most talented.
NOT EVERYONE LIKES BOUNCY CASTLES

Approaches to retaining and motivating individuals are often misdirected, and are often the first cuts made to deliver short-term financial performance. Reward structures, shareholder expectations and performance management processes emphasise short term objectives. An early life stage workforce may enjoy a climate of internal competition, and be encouraged and engaged by long work hours, risk taking, bonuses, extensive travel, perks and benefits such as gym memberships, bouncy castles, slides, free food and nap pods. Individuals attracted this way are also usually more mobile, however, and such devices cease to be a differentiator when they become universal.

KILLING INDIVIDUALITY AND REWARDING CONFORMITY

Cultures of group messaging, ‘presenteeism’ and conformance are particularly repellent to more experienced staff, who want to contribute their expertise unhindered by requirements to subsume their intellect and opinions to comply with a ‘corporate culture’. Often, the articulation, generation, or management of corporate culture applies methods that are uncomfortable for non-Americans or based on the executive team’s preference to avoid diversity or conflict.

PARTING CAN BE SWEET

How much ‘presence’ and ‘leaning in’ are truly necessary to produce excellence in today’s technology-enabled workplace? Presenteeism is the enemy of many women, those with commitments outside of work and people with families. What opportunity might there be for the employer who re-ignites and re-engages experienced talent? What about a workplace which is a bit like a prudent investor with a basket incorporating a variety of risk-weighted investments? We need to have a range of approaches that engage different employees with differing needs.

Naturally, there are times when a parting of the ways is necessary or at least desirable for one or even both parties; opportunities present themselves, mistakes are made and cost cutting is inevitable in many industries. Assuming it is managed well, some turnover is healthy, as is having a flexible workforce that encompasses those working permanently, part time, temporarily, on a consulting, non-executive, or ad-hoc basis to meet the inevitable peaks and troughs of capability needed in any workplace.

What is not healthy is losing a critical mass of organisational capability and talent because we don’t understand what they need and value at work, and how much it costs us when they leave.

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There is a paucity of reasonable and readily available reference material in the market place on executive and board remuneration. This is a welcome addition and I endorse its continuing publication and value for money.

STEVEN COLE, NON-EXECUTIVE CHAIR/DIRECTOR/RENUMERATION COMMITTEE MEMBER OF NEO METALS LTD, AND MATRIX COMPOSITES & ENGINEERING LTD

# - TESTIMONIALS GAINED ARE OF THE 2017 VERSION OF THE REPORT.
STUDY: ANALYSIS OF BOARD LEVEL TURNOVER

The average length of tenure for executives and non-executives in the survey of ASX companies is shown to the right. What can be seen is the relatively short median tenure for chief executives in many industries, sitting at 3 years across the whole sample. This is relatively short, potentially explaining the lesser amounts of incentive based payments recorded later in the survey report, although this could also be due to Boards continuing to exercise cautious remuneration practices in a climate of ongoing shareholder concern with remuneration levels.

We believe that this shortness of tenure may, in part, be explained by the substantial workforce and executive changes occurring following the global financial crisis and varying economic conditions since that time. Whilst this instability has potentially been mitigated with a population of slightly longer serving chair roles, median tenure for NED roles have been even shorter, inferring a higher than usual churn rate at Board level.

There is a lack of alignment between these periods of tenure and the desire for Boards to deliver long term value and strategy for companies. Difficulty exists in making long term decisions with such short tenures. Later in the report, we explore the possible impact of this relatively short tenure on the achievement of incentive payments. It may also be pertinent for Boards to consider this factor in the design or their remuneration programs, and consider extending the qualifying periods for the payment of long term incentives to encourage the extension of the length of tenure of executives.
GOVERNANCE AND REMUNERATION WHEN PREPARING TO IPO

BY JANE GOUVERNET

It is important that companies attract, retain and motivate their officers and employees in a fair and responsible manner.

Increased scrutiny from shareholders, the media and regulators, along with a Board’s legal and governance requirements, have driven the need for chosen remuneration structures to be clear, transparent and justifiable before going to IPO.

Companies deciding how to fairly remunerate and incentivise directors, officers and employees should consider the following governance requirements:

1. PLAN AND PREPARE FOR YOUR REPORTING OBLIGATIONS UNDER S300A OF THE CORPORATIONS ACT 2001 (‘THE ACT’)

S300A of the Act requires listed companies to include a Remuneration Report in its Annual Directors Report, put the report to a vote at the AGM, and give members at the AGM a reasonable time to ask questions.

The Remuneration Report must include:

- Board policies on determining the nature and amount paid to key management personnel (including directors)
- Relationship of remuneration with company performance
- An explanation on any performance hurdles and conditions
- Actual remuneration (including director’s fees) paid to key management personnel.

These disclosures are closely reviewed and compared by advisors, the media, sophisticated and institutional investors. Planning and preparing for this disclosure will help to focus the mind of the Board on creating a justifiable remuneration practice that will encourage market and shareholder confidence, and prepare the Board for questions.

2. YOUR REMUNERATION MAY NEED SHAREHOLDER APPROVAL

As a public company, any transaction that provides a financial benefit to a related party (this includes equity remuneration or a right to equity remuneration) may require shareholder approval under Chapter 2E of the Act. There are exceptions to the need for shareholder approval, including that the remuneration is reasonable, and this needs to be assessed with regards to the company, size and type of benefit.

If shareholder approval is required, a valuation of the benefit must be included in the meeting materials.

If the company is listed on the Australian Stock Exchange (ASX), approval either as part of an employee incentive scheme or individual issue, is required under the ASX Listing Rules.

An opportunity for shareholders to vote on remuneration provides another avenue for shareholder objection, further stressing the importance for clear, transparent, soundly based, fair and responsible remuneration disclosure.

3. DO YOU NEED A REMUNERATION COMMITTEE?

Principle 8 of the ASX Corporate Governance Principles and Recommendations recognises the need to attract, retain and motivate the directors of a company through fair and responsible remuneration. These principles work on an ‘if not why not’ basis, and in conjunction with the ASX Listing Rules. This means that the Annual Report of an ASX listed company is required to include disclosure that reports against the principle recommendations. If a recommendation has not been followed an explanation for ‘why not’ is necessary.
The remuneration principle includes 3 recommendations:

• Have a Remuneration Committee made up of at least 3 members, a majority of whom are independent directors. If the company is likely to be included in the S&P/ASX 300 Index, a committee is mandatory under the ASX Listing Rules. Best practice governance for mid to large cap companies is to have a remuneration committee. The investors and advisers will publically measure the company against this principle.

• Separately disclose the companies’ policies & practices for remunerating executive, non-executives and senior executives. This allows an assessment by investors of whether remuneration may compromise the responsibilities of the role undertaken.

• An equity-based scheme should disclose whether participants can hedge their interests and performance. A remuneration consultant can advise on this.

4.  DO YOU WANT TO SET UP AN EMPLOYEE INCENTIVE SCHEME?

Employee Incentive Schemes aim to align the interests of employees with employers, for long term mutual benefit. They are not to be designed for fundraising or control. If structured appropriately, Employee Incentive Schemes can qualify for relief from disclosure, licensing, advertising, hawking and on-sale obligations under the Act. In effect, this Relief reduces the compliance burden that can be associated with rewarding and incentivising staff with equity.

Current and future Executive and Non-Executive Directors, full and part-time employees, contractors and casual employees working the pro-rata equivalent of 40% of a comparable full time position, can participate in a complying scheme.

Listed companies should pay particular attention to relevant conditions such as the 5% cap. This condition relates to listed companies and highlights that issues under the scheme can not exceed 5% of diluted issued capital. There are inclusions and exclusions in calculating the 5% so it’s important to be across these before making scheme offers.

5.  WHAT ABOUT SHAREHOLDER ACTIVISM?

Activist shareholders have been around for a long time, however technology now provides a platform through which they can quickly garner the support of other shareholders.

Attending AGM and shareholder meetings to vote against a Remuneration Report or remuneration related party transactions can be one way that shareholder activists can destabilise Board remuneration. It is therefore critical for companies to develop a fair and transparent remuneration scheme, providing a solid base from which the company can:

• Monitor activists remuneration issues
• Compare and appropriately benchmark to other schemes
• Anticipate questions and prepare a response for any criticism.

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When organisations consider various remuneration structures, they often focus on the potential impact on their cash flows and how they can incentivise employees, and especially key management personnel, to advance the strategic objectives of the organisation. Employees on the other hand, consider the impact on their personal finances, with the main focus often on the cash inflow and overall value of the remuneration package. However, organisations often neglect to consider the impact of the various remuneration structures on their profit or loss.

AASB 119 Employee Benefits and in particular AASB 2 Share-based Payment outline the appropriate accounting treatment of the various remuneration structures. Aligned with the accrual accounting principles, AASB 119 requires an entity to recognise:

A. a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and

B. an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

AASB 2 requires an entity to reflect in its profit or loss the effects of share-based payment transactions, including expenses associated with transactions in which share options are granted to employees. AASB 2 changed behaviour when first introduced in Australia in 20015.

Prior to the issue of AASB 2 in Australia in 2005, if an entity gave their employees and executives share options, no journal entries were processed. This resulted in entities remunerating their employees and executives via share options as it had no impact on profit, which lead to the provision of inaccurate and misleading information on the performance of the entity. AASB 2 reflects the impact of share based payment transactions in the balance sheet and profit and loss.
After the issue of AASB 2 in 2005, company A recorded the following journals in respect of the above remuneration:

Therefore, remuneration of $600,000 was included in the calculation of profit for the year and $600,000 was disclosed as key management personnel (KMP) remuneration.

The following is a summary of how the introduction of AASB 2 has changed the accounting treatment:

<table>
<thead>
<tr>
<th>Impact on Cash Flow</th>
<th>Impact on Profit and Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before AASB 2</td>
<td>($100,000)</td>
</tr>
<tr>
<td>After AASB 2</td>
<td>($100,000)</td>
</tr>
</tbody>
</table>

As can be seen from this example, the impact of remuneration on cash flows and profit or loss of the organisation is very different and should be carefully assessed before a new remuneration structure is agreed on.

It should also be noted that section 300A of the Corporations Act 2001 requires listed entities to prepare an audited remuneration report as per their annual directors’ report. The remuneration report is required to provide extensive details of all remuneration (including share-based payments) of the organisation’s key management personnel.

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OUR PROPOSITION
The BDO Remuneration and Reward Team covers all aspects of Board and executive remuneration, share and equity program design and advisory services. Our team includes remuneration, share plan, tax, accounting, organisational design, human capital, and governance specialists.

We are able to provide advice on a national basis encompassing all aspects of executive remuneration with expertise in design, implementation, investor relations, corporate governance, accounting, and tax issues. Our offering is built around an integrated model which links all these areas.

DESIGN
- Employment brand, Reward strategy and pay mix
- Annual cash incentive design
- Long-term incentive plan design
- Share plan design
- Performance metrics and target setting
- Tax, accounting and legal* advice
- Drafting of executive contracts and performance agreements
- Performance Management Systems and Executive Scorecards
- Employee share ownership schemes
- Executive benchmarking and sizing of executive roles.

REMUNERATION COMMITTEE ADVISORY
- Drafting of remuneration reports
- Drafting of charters
- Governance reviews and updates
- Executive pay benchmarking
- Updates on market trends, regulation and corporate governance.

IMPLEMENTATION AND COMMUNICATION
- Drafting of remuneration policies
- Drafting of annual cash, long-term incentive and share plan rules
- Key shareholder engagement around share scheme implementations
- Drafting employee communications
- Tax assistance, global tax efficient arrangements, tax guides.

*legal (outsourced partner)
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