

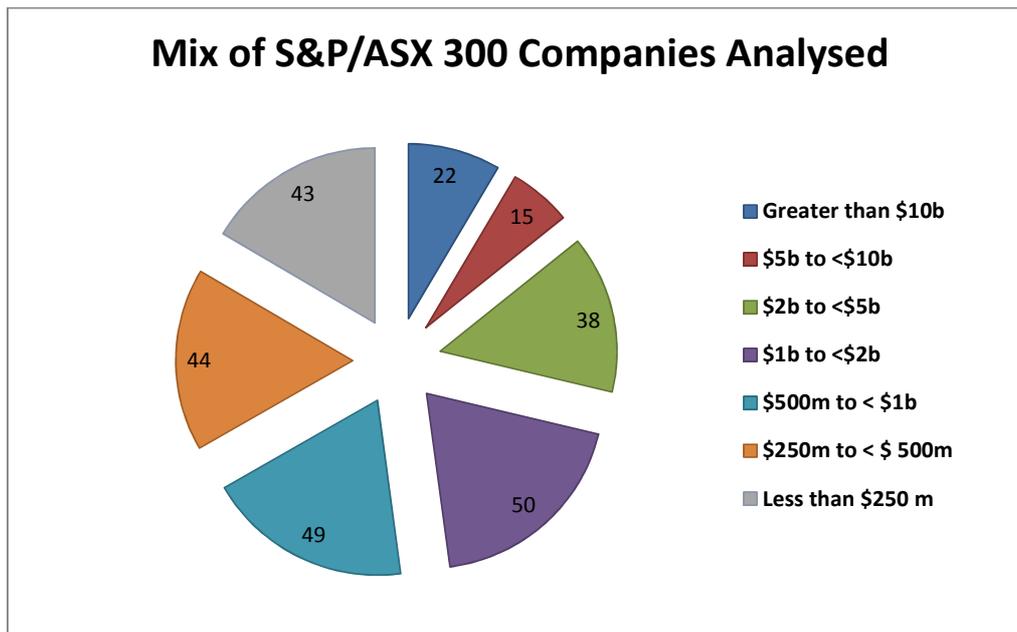
“First Strikes” Analysis of S&P/ASX300 Companies*Author: Denis Godfrey***Remuneration Review No 38, May 2012****Introduction**

As foreshadowed in GRG Remuneration Review 35 “Preliminary Observations on First Strikes”, we have undertaken analysis of voting on Remuneration Reports for companies in the S&P/ASX300. Most companies with December 2011 year-ends have now had their AGMs, thus it was timely to undertake this analysis.

Those companies that received a strike (25% or more of cast votes against the Remuneration Report) will need to include in next year’s notice of meeting an additional resolution which will be activated if a second strike is received. That resolution will call for a spill of the board except for the Managing Director and will need to be passed by a simple majority. If passed another general meeting will need to be held within 90 days of the AGM to elect new directors who may include those persons who were directors at the AGM.

Companies Analysed

Of the companies in the S&P/ASX300, data was obtained for 261 companies. Those not covered were mainly listed investment trusts and overseas companies, however, a small number were not included as they still had not had their AGMs. The following pie chart indicates the mix of analysed companies based on market capitalisation as at the end of June 2011.



Strikes Recorded

The following table shows that approximately 10% (25 of 261) of the companies analysed received a strike and another 10% were close to receiving a strike.

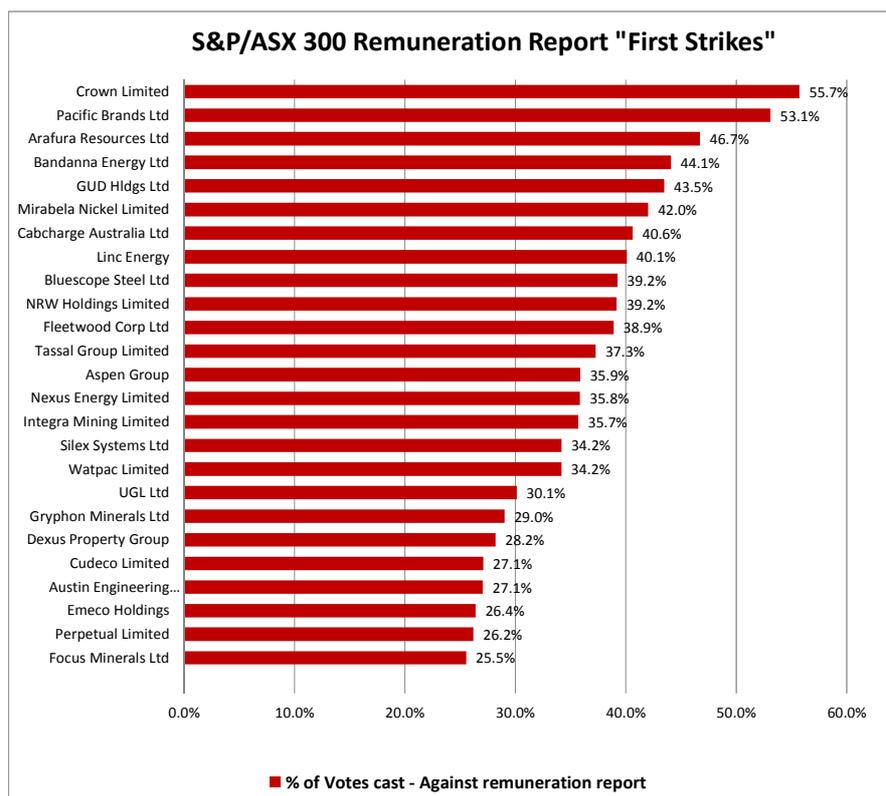
Market Capitalisation as at June 2011	S&P/ASX 300 Analysed Companies With Significant Votes Against Remuneration Report		
	"First Strikes" (≥25% Negative Votes)	20% - <25% Negative Votes	15% - <20% Negative Votes
Greater than \$10b	0	0	2
\$5b to <\$10b	1	1	1
\$2b to <\$5b	2	1	1
\$1b to <\$2b	3	1	3
\$500m to < \$1b	8	1	5
\$250m to < \$ 500m	6	3	1
Less than \$250 m	5	3	2
TOTALS	25	10	15

Each company that received a strike and had comments made on its Remuneration Report at the AGM are obliged to explain in their next Remuneration Report, either the board's proposed action in response to the comments or if the board does not propose any action, the board's reasons for inaction.

All companies that received strikes or near strikes should have reviewed their key management personnel (KMP) remuneration practices with a view to ensuring that they reflect good corporate governance and are appropriate to the company's circumstances.

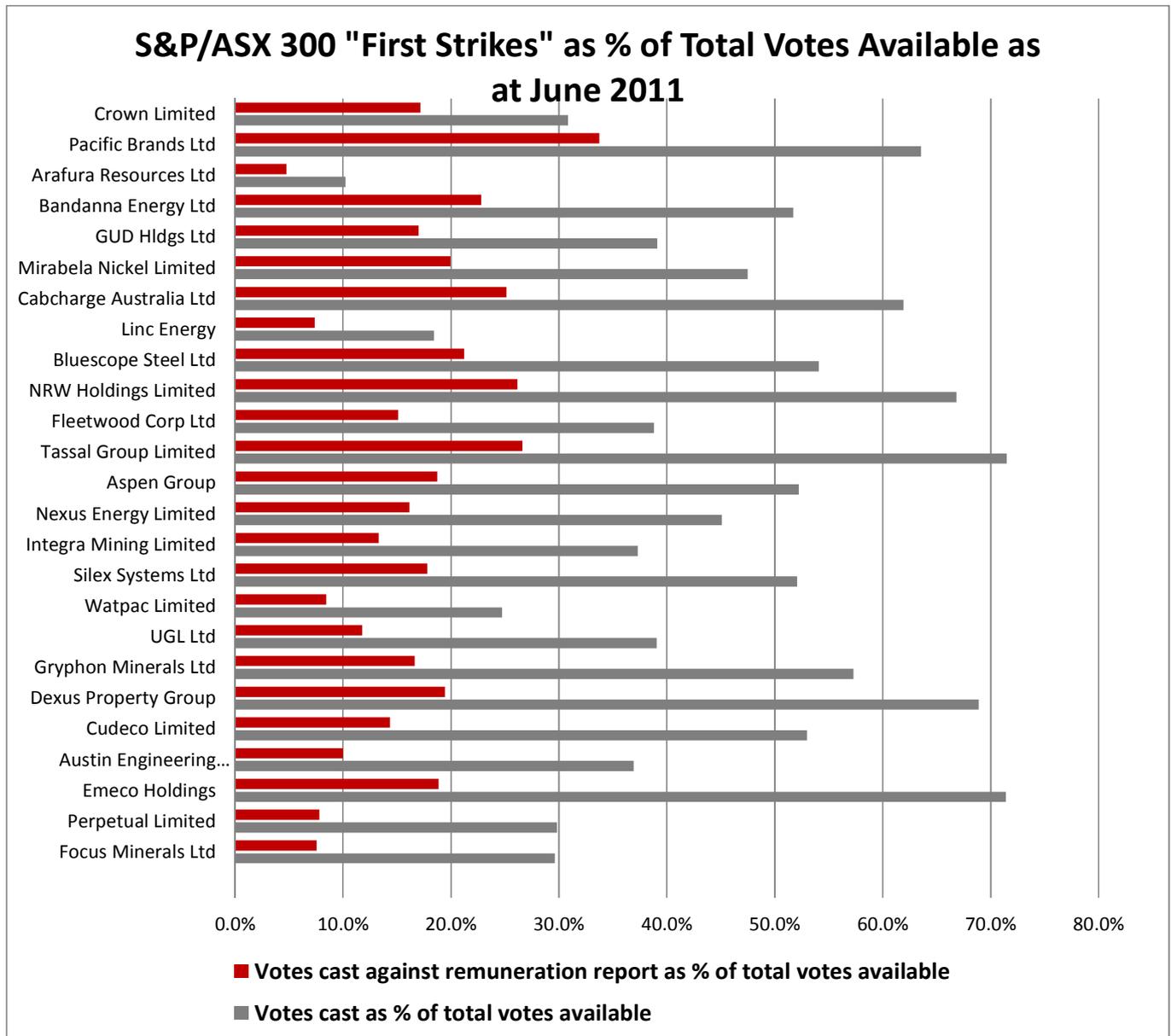
Negative Votes on Remuneration Reports

The following table shows the percentage of votes cast that were against Remuneration Reports for companies that received a strike.



At first glance the foregoing table seems to indicate that opposition to the Remuneration Reports ranged from modest (25% against) to strong (55.7% against). However, further analysis suggests that opposition was far weaker. The following table shows:

- the percentage of total available votes that were cast, and
- the negative votes as a percentage of total available votes.



From the foregoing table the following should be noted that actual negative votes cast were:

- less than 25% of total available votes in 21 cases (84% of strikes), and
- 25% or more of total available votes in 4 cases (16% of strikes).

The low percentage of total votes that were cast when a strike occurred may be attributable to legislative limits that stopped KMP and related parties from voting shares and proxies on the Remuneration Report resolution. The Government has announced that it proposes to correct this problem with an amendment to the Corporations Act.

Conclusions

The low voting on Remuneration Reports will need to be addressed through companies engaging with their shareholders to ensure that they:

- appreciate that the company's remuneration policies and practices are reasonable and appropriate to the company's circumstances, and
- exercise their voting rights in support of the Remuneration Report resolution.

Otherwise, it may be open to an active minority to use Remuneration Report voting and a potential spill of the board to pressure the board to comply with its priorities which may be unrelated to KMP remuneration matters.

Of course, companies that have KMP remuneration practices that are not consistent with best practice should have their remuneration strategies reviewed by an independent advisor and take appropriate steps to implement improvement.

Key Management Personnel Remuneration Advice

GRG is a specialist advisor on remuneration for key management personnel (KMP) i.e. non-executive directors, executive directors and other top executives. To facilitate its independent advisory function GRG maintains two remuneration databases with one concentrating on non-executive directors and the other on top executives. This data analysis allows GRG to remain up to date with current trends and developments and to be able to benchmark company practices against market practice. The increased focus being placed on KMP remuneration makes it more important than ever for Boards to be satisfied that they are adopting practices that are consistent with market practice and appropriate to their company's circumstances.

If you would like an independent review of the market competitiveness of your company's remuneration practices for KMP then GRG will be pleased to assist. Please call Denis Godfrey or James Bouchier on (02) 8923 5700 or Mike Carroll on 0416 226 131.