

Key findings

A summary of the key findings of the ProNed Non-Executive Directors' Survey Report 2009 is presented below. Full analysis and discussion, including detailed tables of director and CEO remuneration, are presented in the 64 page Report.

Major Issues Facing Directors

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Respondents' views on the three major issues currently facing directors were sought. Given the current turmoil in the world economic markets, it is not surprising that this was nominated by the majority of directors. Issues relating to compliance and regulation and their impact on the performance and focus of directors were mentioned by many and point to another prominent area of on-going concern. Access to finance, closely related to current economic and market conditions, was recorded as another significant issue, as was remuneration, in particular executive remuneration.

Share Ownership and Share Options

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Almost all respondents believed that directors should be encouraged to own shares in the company, (91%), and that share ownership should be on a voluntary basis (94%), rather than mandatory (11%).

A small percentage of non-executive directors in public companies receive shares in the company as remuneration for their board work, reported to be the case for 13% of directors. The median finding was that these shares represent 20% of the annual board fee.

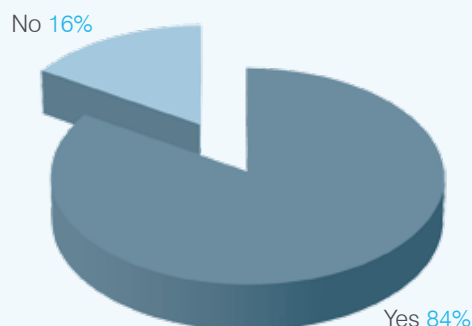
A majority of directors (59%) believed that they should be compensated at least in part by share options. Options equivalent to 25% of the annual board fee was the percentage suggested by most.

Margin Loans

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As has been seen in recent times, using margin loans to fund investments may involve risk for both the individual and the company. A large majority of respondents, 84%, indicated that they believed that directors should declare that they have accessed margin loan funding. The frequently given reason was "transparency" and to avoid a "conflict of interest".

Should directors declare to shareholders shares purchased by margin loan funding?

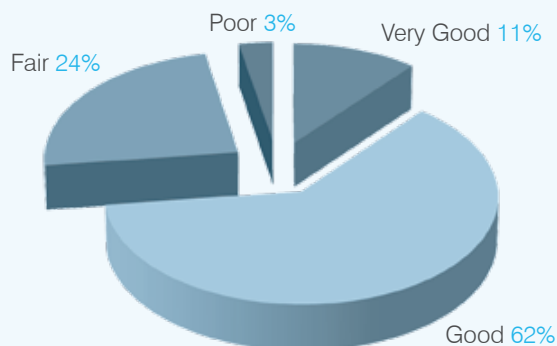


Quality of Directors

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Respondents were asked to rank the quality of directors of the ASX Top 200 companies on a scale from very good to poor. Seventy-three cent ranked Top 200 directors as good or very good, with 24% ranking them as fair, and 3% giving a poor vote.

How would you rank the quality of directors of ASX Top 200 companies?



Opinions as to how the quality of Top 200 directors could be improved were sought. One third of all responses suggested that adopting a greater diversity for the pool from which directors are drawn, including background, gender, age and experience, as being the most significant key to improving the quality of board members.

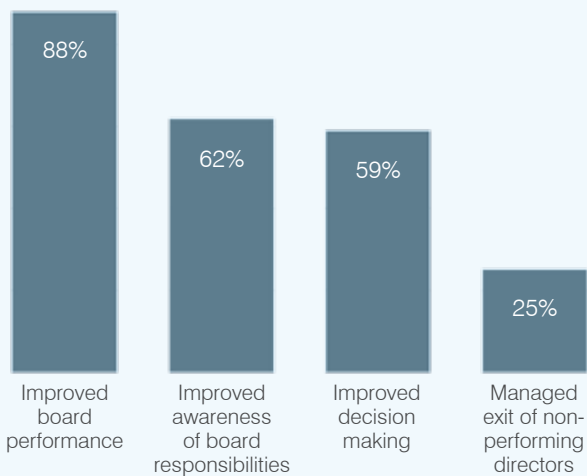
Review of Board Performance

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A formalised system of appraising the board's performance is in place for 58% of boards, steadily increasing from 38% of boards in 2000. However, there still remains a significant percentage of boards without a formal review process in place, although we expect to see a steady increase in the percentage of boards conducting performance reviews in the next few years, with another 15% of boards considering introducing performance reviews in the near future.

Almost all respondents (88%) reported improved board effectiveness as the main benefit that comes from conducting a performance review of directors. Another major benefit flowing from board performance reviews is an increased awareness of board responsibilities, cited by 62% of respondents.

What are the main benefits that come from conducting a performance review of directors?



Risk Management

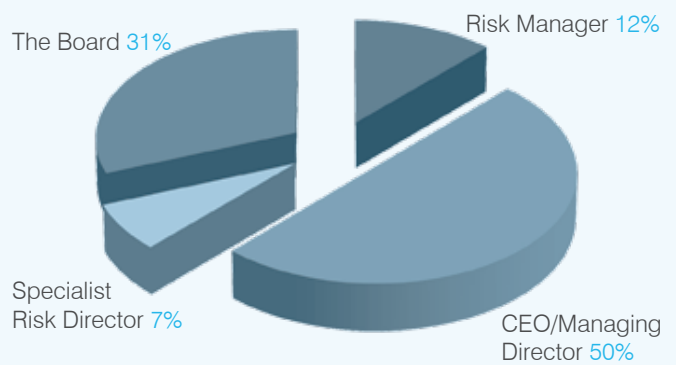
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A formal risk framework is in place in 74% of companies, slightly higher than the 72% reported in 2007. When all but the smaller and private companies are taken into account, the frequency of companies having a formal risk management system in place is even higher. We expect this finding to increase in future reports, with an additional 10% of companies planning to adopt a formal risk system in the near future.

Of those companies with a formal risk management framework, risk management is supervised by a majority of boards, with 91% of boards reporting oversight responsibility. This responsibility is managed through a special purpose board risk committee for 57% of those boards although in some cases the Audit Committee has responsibility for risk management oversight.

However, prime responsibility for risk is reported to rest with the Chief Executive or Managing Director in 50% of cases, (2007 finding 52%). The board has prime responsibility for risk in 31% of cases, (2007 finding 35%) with an additional 7% with prime responsibility through a specialist risk board director, (2007 finding 5%).

Who has prime responsibility for risk?



IT Governance

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Information technology infrastructure is often one of the most significant investments in infrastructure that a company makes and is a key area of concern for board governance.

Prime responsibility for Information Technology is usually assigned to a senior company executive, most frequently the Chief Executive or Managing Director in 40% of organisations, or the Chief Information Officer or Information Technology Manager in another 36% of companies, or the Chief Financial officer in 18% of companies. The company board or a specialist IT director were reported to be primarily responsible for IT in just 6% of companies.

Key findings

Board Fee Increases

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Most directors have received an increase in board fees in the last two years. Seventy percent reported increases in the last two years, with 37% reporting fee increases during 2008. For directors who received increases to their board fees in the last two years (in 2007 or 2008), the median increase reported is 10.8%. It should be borne in mind that this does not represent an annual increase, as it is not usual practice to review board fees annually.

Fee Comparisons

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In round terms, the chair receives twice the base fee paid to non-executive directors of the same company. The overall differential between the deputy chair's base fee and non-executive directors' fee is 1.1. However, for 42% of boards, the deputy chair and non-executive directors received exactly the same fee.

Comparing the chief executive's package (before incentives) to the chair's base fee, the chief executive's remuneration is 4.2 times that of the chair's. When the chief executive's incentive payments are taken into account, there is a significant impact on the ratio, with chief executives receiving almost six times the remuneration of their chair.

Committee Fees

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Survey respondents reported that 74% of boards operate through one or more board committees. Of these, 30% pay additional fees on top of the base fee for committee work. For the Audit Committee, the most frequently reported board committee, the median fee for the chair is \$10,000 with \$5,000 for audit committee members.

Board Time Commitment

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The total time commitment represents all time spent on matters relating to the board including, where relevant, time spent on board meetings, committee work, ad hoc meetings, discussions with the CEO, plant or site visits, conferences and seminars, company representation, interstate and overseas travel and time spent on preparation, discussion and follow-up.

Across all categories of companies in the survey, the chair spent 36 days per annum on board matters, the deputy chair 23 days and non-executive directors 24 days. The total time spent on board committees is six to seven days per year.

Women Directors

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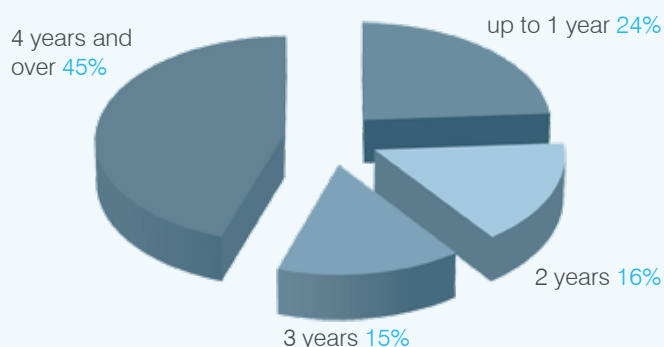
The overall percentage of boards with at least one woman director is at a similar level to the 2007 and 2000 Reports. It was reported that there is at least one woman on 48% of boards, the same finding for 2007 and slightly higher than the finding of 46% in 2000. In terms of the total director population, women account for 18% of total directors of all boards surveyed.

The findings suggest slow change to the status quo in the near future for women directors' overall representation, with just 10% of boards having as a priority the appointment of more women to their board.

Improved representation of women on boards has increased particularly on government and not for profit boards where almost all of these have at least one woman director. Almost all government boards have at least one woman director (95%, up considerably from the 86% reported in 2002), and 96% of not for profit boards have a woman director (up from 75% in 2002). Comparatively fewer women are on public and private company boards, with a woman director on 34% of public company boards and 31% of private company boards (40% and 34% reported in 2002).

Almost half of the board positions held by women directors have been held for four years and over. Of interest is that almost a quarter of the board positions held by women are relatively new appointments, having been made in the previous 12 months.

Non-Executive Women Directors years on the board



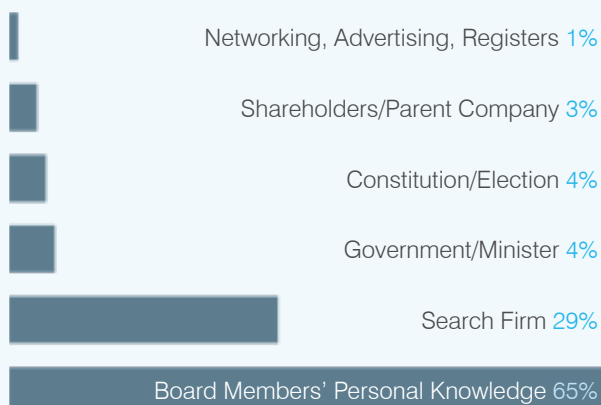
Appointment of Directors

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The process for recruiting new directors is seen by many as an area that could benefit from the use of professional recruiters and other methods to widen the potential candidate pool. Renewal of directors is an on-going issue, with 62% of boards making a board appointment during the last 12 months, and 56% of boards making more than one appointment.

The results from this survey indicate that boards make use of a combination of methods in selecting new directors; however, the board's own network or personal knowledge is still the predominant means of appointing directors, reported to be the case for 65% of boards. The use of search firms is significant, with 29% of all boards using a search firm to recruit new directors, up from the 22% finding in 2002.

How are directors usually appointed to the board?



Induction

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Following the selection and appointment of new directors, 60% of the boards surveyed have an induction programme in place to assist their new directors. The induction typically consists of an information pack or directors' handbook and a full day of meetings with the Chair, Chief Executive and other senior management. Site visits are often arranged and courses are made available for some.

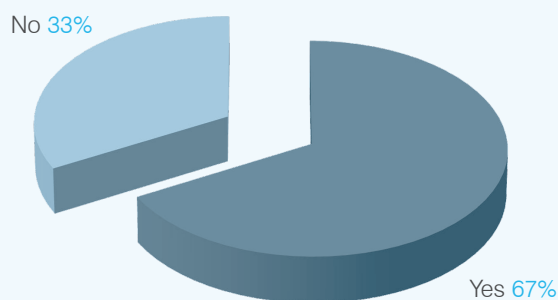
CEO Remuneration

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The remuneration of the chief executive and senior managers was reported to be one of the top three major issues currently facing directors. Remuneration needs to be at a level that fairly rewards the performance of both the CEO and the company. To achieve this, boards adopt a variety of methods and advice, either directly by the board as a whole, or through the board remuneration committee.

Yet, for one-third of boards represented in this survey, the board does not seek its own independent advice when setting the CEO's remuneration but instead acts on data and recommendations obtained from the CEO and the senior management team, or advisors retained by senior management.

Does the Board seek independent advice on the CEO's remuneration?



However, this appears to be an arrangement that the majority of directors are satisfied with, with 84% of those using advice obtained by senior management replying that they do not have concerns about the independence of that advice.

These are the key findings to the ProNed 2009 Non-Executive Directors' Survey Report. The full survey report may be purchased via our website: www.proned.com.au

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