



MEMO

To: Board of Directors
From: Company Secretary
Subject: **REMUNERATION REPORT**

Section 300A of the Corporations Act requires, for all Disclosing Entities (whether or not stock exchange listed), that the Directors' Report (being part of the annual financial report) must include a sub-section – clearly identified under the heading "Remuneration Report", which itself must be audited – detailing remuneration, policies, etc for directors and key management personnel.

The ASX Corporate Governance Principles also provide that the structure and objectives of a company's remuneration policy and its relationship to the company's performance also be disclosed.

It is accepted 'best practice' for other companies to include information on the same basis in their annual financial report.

Information to be Provided

Specific information to be included in the Remuneration Report of Disclosing Entities:

- board policy on remuneration of 'key management personnel' – which includes directors
- discussion on the relationship between board remuneration policy and company performance – which could cover company earnings and consequences of performance on shareholder wealth for the relevant financial year and the previous year (including, for example, in relation to dividends, share price changes and return of capital)
- if a remuneration element is dependent on performance:
 - a summary of the performance condition, and why chosen;
 - methods used in assessing satisfaction, and why chosen; and
 - if the performance condition involves comparison with external factors, a summary of those factors
- the prescribed details of remuneration of each key management personnel, including:
 - the proportions of remuneration consisting of performance-based remuneration and other; and



- certain details regarding options, including valuation
- if remuneration includes an element of securities and that element is not performance-based, an explanation of why
- for persons employed under a contract – details of duration, termination notice period and termination payments.

Part 2M.3.03 of the Corporations Regulations prescribes the details to be included in the Remuneration Report.

Key Management Personnel

Under s300A(1AAA), 'key management personnel' is stated to have the meaning defined in the accounting standards (AASB 124) as "those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity."

Audit of Remuneration Report

s308(3C) requires that, if the Directors' Report for the financial year includes a Remuneration Report, the auditor must report also to shareholders on whether the auditor is of the opinion that the Remuneration Report complies with section 300A of the Act. If not of that opinion, the auditor's report must state why.

Example auditor's report wording (being part of his full 'Independent Audit Report to Shareholders':

"We have audited the Remuneration Report included in pages 7 to 11 of the directors' report for the year ended 28 February 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

In our opinion the Remuneration Report of the company for the year ended 28 February 2010 complies with section 300A of the *Corporations Act 2001*."

Annual General Meeting – Advisory Resolution

In addition, for a stock exchange listed company:

- standard business of the AGM now includes consideration of a resolution that the remuneration report be adopted – s250R(2)



- the notice of AGM must inform shareholders that the resolution on the remuneration report will be put to the meeting – s249L(2)
- the information in the AGM notice of meeting must be clear and concise – s249L(3)
- the chairman at the AGM must allow reasonable opportunity for shareholders to ask questions about or make comments on the remuneration report – s250SA
- the shareholder vote is advisory only and does not bind directors or the company – s250R(3).

Sample AGM resolution:

To consider and, if thought fit, pass the following Advisory Resolution:

“That the Remuneration Report for the year ended 28 February 2010 (as set out in the Directors’ Report) be adopted.”

The vote on this Resolution 2 is advisory only and does not bind the Directors of the Company.
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and from Explanatory Memorandum accompanying the Notice:

The Corporations Act 2001 requires that the section of the Directors’ Report dealing with the remuneration of key management personnel including the Directors (Remuneration Report) be put to Shareholders at the AGM.

The Board submits its Remuneration Report to shareholders for consideration and adoption by way of a non-binding resolution.

The Report:

- explains the Board’s policy for determining the nature and amount of remuneration of executive directors and senior executives of the Company;
- explains the relationship between the Board’s remuneration policy and the Company’s performance;
- sets out remuneration details for each Director and the most highly remunerated senior executives of the Company; and
- details and explains any performance conditions applicable to the remuneration of executive directors and senior executives of the Company.

A reasonable opportunity will be provided for discussion of the Remuneration Report at the meeting.



The Board unanimously recommends that Shareholders vote in favour of adopting the Remuneration Report. A vote on this resolution is advisory only and does not bind the Directors of the Company.

DISCLAIMER

The comments in this memo reflect some commercial aspects and observations on the matter experienced or observed by the writer in practice as he understands them. The information is given as a guide only and does not represent a definitive or legal view of any of the issues raised, covered or referred to and the reader is urged to seek his own professional advice on all aspects of, or pertaining to, this and any related matter.

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