Figures don't lie on value for money

Two Western Australian chief executives stand out in our fifth annual salary survey, which also found a big increase in the number of million-dollar packages. **Mark Beyer** reports.

MONADELPHOUS Group chief executive Rob Velletri and his counterpart at Fortescue Metals Group Andrew Forrest don't seem to have a lot in common.

But the low-profile Mr Velletri and the larger-than-life Mr Forrest share at least one trait – their salary packages represent great value for money for the shareholders of each company.

With million-dollar salary packages increasingly common – *WA Business News*' annual survey found 79 company directors and executives who earned $1 million or more last year, nearly double the number from one year earlier – Messrs Velletri and Forrest are modestly paid relative to their peers and when measured against their achievements.

Applecross-based engineering and construction company Monadelphous has grown to be one of Western Australia's top 20 companies by market value.

It doubled net profit last year to $60.4 million and has delivered total shareholder returns – combining dividends and capital growth – over the five years to June 2007 of 2,887 per cent.

That is better than just about any other mature, industrial company in WA.

The long-serving Mr Velletri was awarded a healthy 15 per cent pay rise last year, yet his total remuneration is unusually low for a company of Monadelphous' size and maturity.

His total remuneration was $593,000, including a $100,000 bonus and $49,000 in share options. More than 80 other WA chief executives, most of whom run much smaller companies, earned more last year.

The frugal pay regime at Monadelphous was shared by the company's executive chairman and major shareholder John Rubino, whose total remuneration last year was just $209,000.

Monadelphous declined to comment on its remuneration policies, though Mr Rubino told *WA Business News* in 2005 that it focused more on its company culture and providing support for its staff than being a top payer.

"I think our environment is such that people love to work," Mr Rubino said.

"They want to be part of a successful company, but its more than that; they have to get the personal satisfaction."

Monadelphous' staff share scheme also plays a part in rewarding staff.

FMG boss Andrew Forrest has become one of Australia's wealthiest people, with his shareholding in the aspiring iron ore miner worth more than $6 billion.

Despite the growing investor support for the company – WA's third biggest by market value, behind only Woodside Petroleum and Wesfarmers – and its progress towards its first export shipment next year, Mr Forrest is also very modestly paid.

His total remuneration last year was $221,000, split equally between his salary and a cash bonus.

That means he earns less than nearly every other chief executive of WA's 100 largest companies.

Critics might argue that people like Mr Forrest and Mr Rubino have been handsomely rewarded through their shareholdings.

They certainly have been, but they have also contributed enormously to the increased wealth enjoyed by all of their shareholders through their executive duties.

This year's salary survey has highlighted the growing use of share options as a means of boosting the remuneration of company directors and executives.

The strong gains in share prices over the past few years also means that option schemes are far more lucrative than was the case.

A prime example was Summit Resources. Six of its directors and executives collectively made an instant profit of about $28 million when they exercised share options earlier this year.

The Summit options were granted in November 2006 and rocketed in value after uranium miner Paladin Resources launched a takeover bid for Summit.

Summit's former managing director, Alan Eggers, was the biggest beneficiary, after being granted options valued at $6.3 million. That helped to lift his total remuneration to $7.5 million, making him the highest paid chief executive in WA last year.

Another takeover target, Golden West Resources, has also been generous with share options.

In March this year it granted options to four of its directors that were valued at $12.4 million.

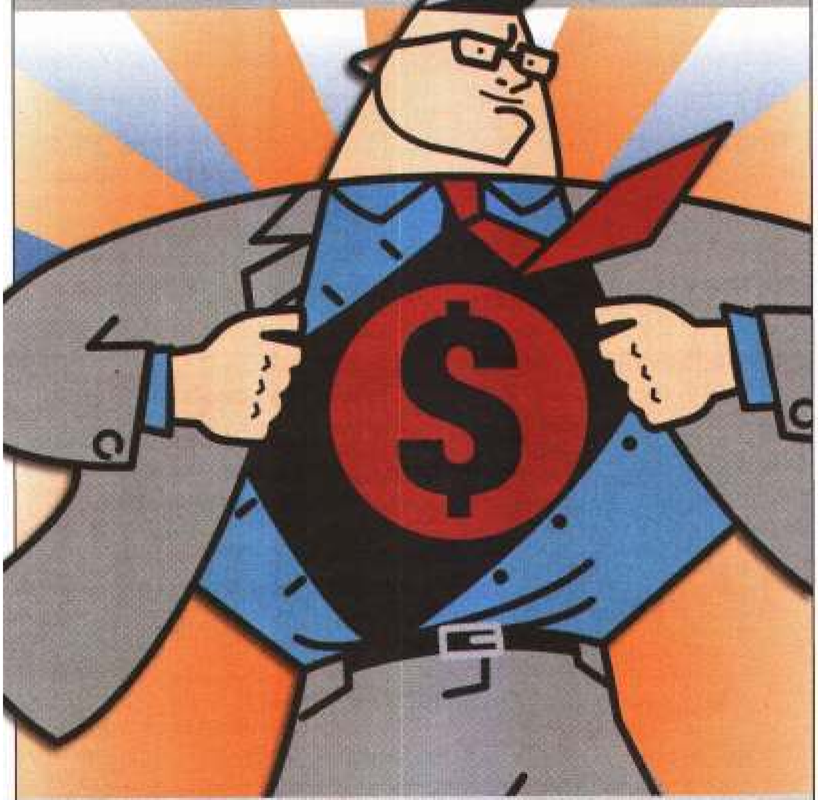
The ultimate value of these options, which allow the holder to buy shares at a pre-agreed price, is unknown and will depend on future movements in Golden West's share price.

They could become worthless, but it's just as likely they could increase in value.

Many company directors believe it is misleading to include share options in remuneration reports because of the uncertainty surrounding their value.

There have certainly been plenty of examples, led by technology companies, where executives have been granted options whose value disappeared when the share price collapsed.

WA's TOP PAID CEOs



HIGHEST TOTAL REMUNERATION		
Alan Eggers	Summit Resources	$7.57m
Don Voelte	Woodside Petroleum	$5.53m
Richard Goyder	Wesfarmers	$5.30m
HIGHEST BASE INCOME		
Richard Goyder	Wesfarmers	$2.44m
Don Voelte	Woodside Petroleum	$1.93m
Peter Johnston	Minara Resources	$1.47m
HIGHEST CASH BONUS		
Don Voelte	Woodside Petroleum	$1.44m
Peter Diamond	Euroz	$915,000
Laurie Freedman	Emeco Holdings	$850,000
NON-EXECUTIVE CHAIRMAN		
Michael Chaney	Woodside Petroleum	$485,000
Trevor Eastwood	Wesfarmers	$445,400
James Campbell	Minara Resources	$222,750

While mining and exploration companies have increasingly used share options to boost remuneration, many other companies have chosen to pay increased bonuses.

Woodside Petroleum chief executive Don Voelte was paid the state's highest cash bonus last year of $1.44 million.

Combined with his base salary of $1.9 million and share-based payments of $2.1 million, he earned a total of $5.5 million for the year.

That put him just ahead of Wesfarmers chief executive Richard Goyder, whose total remuneration was $5.3 million.

Highly successful – and highly profitable – stockbroking firm Euroz rewarded its senior executives and directors with large cash bonuses last year.

Chairman Peter Diamond, chief executive Andrew McKenzie and three other executives were each paid $915,000 in bonuses.

Shareholders of listed companies have an opportunity to voice their opinions if they are not happy with the remuneration policies.

Listed companies must put their remuneration report to a vote of shareholders at their annual general meeting.

Shareholders in Telstra and AGL Energy voted against their respective remuneration reports last month, but there has been little direct impact, since the votes are not binding on the board of directors.

The voting pattern at annual meetings suggests that shareholders vote against remuneration reports not because the executives are highly paid, but because they are displeased with the performance of the company.

Wesfarmers and Woodside reward their chief executives with high remuneration but there is little dissent among their shareholders because the companies have delivered good returns.

A close read of remuneration reports also reveals the large amount of work that goes into developing remuneration policies.

Most companies carefully survey the market when setting base pay and set a range of performance targets for their executives to meet before they qualify for bonuses and share options.

The targets usually have a bias towards financial results for short-term bonuses and shareholder returns for long-term bonuses.

However, they also include operational performance and factors such as staff development and workplace safety.

Woodside's outgoing chairman, Charles Goode, spoke for most companies when he explained to shareholders at the annual meeting in April the goals of its remuneration scheme were: "to provide competitive rewards that attract, retain and motivate staff of the highest calibre and which provide an alignment between staff incentive rewards and the creation of value for shareholders".

• Additional research by Anna Moreau