

News release

For immediate release

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No dramatic swings in total compensation levels for senior executives in Singapore in Financial Year 08 (FY08).

Moderate approach to executive remuneration expected to continue in FY09.

SINGAPORE, 27 October 2009 – Singapore companies have taken a moderate approach to total remuneration for executive and board, with the number of Chief Executive Officers (CEOs) who had received packages above S\$5 million declining in FY08 as compared to a year ago, according to Ernst & Young's 2009 executive and board remuneration report, *Responding to realities*, released today. Meanwhile, executives who were paid low relative to their peers, had their compensation adjusted in line with market practices, as indicated by fewer CEOs earning under S\$1 million and no Chief Financial Officers (CFOs) earning under S\$250,000 in FY08.

Singapore's top executives received on average salary increases of 10% in FY08. However, Julia Smith, Ernst & Young's Performance and Reward Singapore practice leader points out that averages can be misleading as practices in FY08 were split. Almost one quarter (23%) of senior executives did not receive any salary increase in FY08, while 39% received increases greater than 15%. Julia Smith says: "Companies now face the challenge of striking a delicate balance between rewarding and retaining key executive talent required to drive business through the downturn and demonstrating effective performance linkages with pay."

Short-term incentives reduced, long-term incentives not leveraged well in Singapore

Pay practices in Singapore are less leveraged than in the US. In terms of variable compensation, short-term incentives (STI) for CEOs and Business Unit (BU) Heads in FY08 have been reduced as compared to a year ago. Overall, seven percent of key executives in Singapore received no STI in FY08 compared to two percent in FY07. CEOs led by example with the highest percentage (11%) of them receiving no STI payments, as compared to only two percent in FY07.

Julia Smith says: “It is not surprising that short-term incentives have reduced in light of the declining economic outlook in FY08. Short-term incentive plans help to align compensation with business performance, and allow flexibility in responding to short-term business needs such as riding through a downturn. In the US, UK and Australia, there is increasing use of deferral of a portion of STI earned, particularly into equity, to incentivize executives to sustain performance beyond the current year. The trend of using short-term incentive deferral is likely to pick up in Singapore, as companies tighten the pay for performance linkage in coming years.”

While bonuses were down for CEOs and BU Heads, bonuses were actually on the rise for CFOs. Julia Smith says: “During tough financial times, especially when there is a shortage of cash, the CFO role becomes essential to ensuring business survival. For a number of companies, the CFO was the unsung hero in this crisis, in some cases anticipating the credit crunch and acting proactively to ensure an ongoing supply of cash for their company. We saw this rewarded in higher bonus payments for CFOs.”

In terms of long-term incentives (LTI), while almost 90% of analyzed companies have some form of LTI plan in place, only half made grants in FY08. Julia Smith points out: “There isn’t much point in having an LTI plan if you don’t use it. This is a lost opportunity to ensure that executive interests are aligned with the long term interests of shareholders.”

Julia Smith concludes: “As companies position themselves for the economic upswing, they should maintain a strategic, rather than a reactionary approach to compensation design. Moving forward, we expect total compensation packages to be driven by the competitive labor market, as well as continued constraints on fixed compensation, short-term incentive bonus pools and payments. Shareholder influence in executive compensation is likely to increase. The coming year will provide remuneration committees the opportunity to assess how robust their remuneration policy is and its degree of alignment with wider business goals”.

This Ernst & Young’s 2009 executive and board remuneration report, *Responding to realities*, which examines executive and board compensation practices for SGX 100 companies in Singapore, excludes companies where Singapore is not the primary listing, as well as those where data has not been reported or reported only on an aggregate basis. This results in 60 companies being included in the analysis.

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