

RUSSELL REYNOLDS ASSOCIATES

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Dear John,

Global Market for Executives

Following our earlier discussion on the global executive search as it relates to Australian companies and executives, I thought it would be prudent to detail our thoughts and our findings on this topic. This will hopefully clarify some misconceptions around senior level appointments in Australia and the global executive talent pool.

By way of background, Russell Reynolds Associates is a management consultancy specialising in senior level executive search and assessment. The firm was established in 1969. Since that time, we have grown to 39 offices worldwide. The firm owned by its partners.

In Australia we are similarly well established. We commenced in 1986 in Sydney and the Melbourne office was set up not long after in 1988. In Australia we are one of the largest of the top tier executive search firms in the country.

Our understanding and experience in the senior level appointments at executive remuneration levels of over \$250,000 is extensive. Our experience also involves a mixture of local and international assignments. For example, over the past three years, we have completed over 250 senior level searches.

In terms of our client base, we work for a full range of sectors and for both private and public organisations of all sizes. The key components of our work involve helping clients recruit the best talent and leadership to their businesses to help solve what are typically complex business and organisational issues as well as adding value to our clients' business and strategies. We work as advisors and through direct approach versus advertising. We maintain a single worldwide database of senior executives which is accessed by all our offices.

Given the unprecedented changes over the past six months the pressures on Australia's senior leadership have never been as intense or complex. More than ever an organisation's capacity to sustain its business and protect the jobs of its employees

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depends on the leadership of the organisation. We have seen first hand the impact good leadership can have for an organisation as well as the unfortunate results of mediocre leadership or poor executive appointments.

Over the last five years, we have also noticed a significant change in the brief delivered to us by clients in order to benchmark Australian executives with global talent. Global executive search, which used to be the province of mainly financial services, medical and academic sectors, has spread across all sectors, led in particular by the mining and resources sector.

Whereas going back five years, probably 50% of our CEO work would require us to look offshore, it is now always the case for all our CEO level work. We can confidently say that 100% of our CEO assignments involve clients specifically asking us to look offshore. In terms of "C-Suite" assignments (those direct reports to chief executives), this would also be close to 100% of assignments. At the very least considering Australians currently working offshore who may be in a position to return home is now typical for all assignments. It would also be typical that most shortlists of candidates at this level would contain at least one person from offshore.

As Australian companies grow offshore, especially into Asia, clients have moved to seek solutions where candidates must have had particular international experience to be able to bring global or specific geographic practices to a company and, indeed, bring a global perspective into the organisation. Clients are also keen to benchmark local talent with a potential offshore appointment and often learn about other markets through discussion with offshore candidates.

The final point we wish to make, in terms of the market factors driving this change, is the talent pool at the top end of Australia is small and becoming better known internationally. Companies are often forced into looking offshore as the market in Australia across a number of sectors simply is not big enough to support local search requirements. Our capacity to attract offshore talent is typically a function of the opportunity and the compensation.

We are also seeing many strong Australian executives attracted to overseas postings for reasons of remuneration and global experience with the end result of building their own resumes. Australian executives are sought after in many sectors and they are often less well remunerated than their counterparts overseas. A significant and increasing proportion of our work involves researching and targeting specific Australians with the objective of recruiting them overseas.

The most relevant and recent (in the last month) examples we can give you are from the banking sector. Two of the leading internal candidates for the CEO positions from two of Australia's biggest banks have left for overseas roles. These being Brian Hartzler, ex ANZ and Mike Pratt, ex Westpac. Rest assured these individuals would be on globally competitive packages and represent a considerable loss of experience to Australia in favour of an overseas company.

In terms of the impact a successful global candidate can have in the Australian environment, you do not have to look too much further than the top 20 ASX listed organisations, some of which have been brought back from the brink of sever

John Colvin
25 May 2009
Page 3

problems by a successful offshore recruit. Companies like BHP Billiton, ANZ, Westpac and the National Australia Bank are all examples of organisations that have benefited due to an offshore appointment and some have gone through significant turnaround in performance as a result.

Many of Australia's top 20 companies are run by offshore CEOs, who themselves have brought in others. While there have been a number of overseas appointments in significant companies, there have been some "failures". These "failures" are very few in number and are far outweighed by executives who have managed to transfer organisations. Some of these organisations have high profiles and others do not.

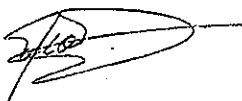
As the pace of globalisation will no doubt continue, the movement of high quality executives internationally will also increase.

Australia has a good reputation overseas as a source of strong executive talent at lower levels in a range of areas and this does not go unnoticed by overseas companies. We can see this in our work as we keep track of senior Australian executives who are currently offshore and the increasing amount of work we receive from our offshore offices looking for Australians to head businesses overseas. At the moment, around 70-75% of our work three levels down from a CEO, would involve an offshore component. This is markedly up over the last five years.

If we look at Australian companies fifteen years ago, many grew by diversifying in Australia. These days, Australian companies tend to remain in their sector of expertise but grow by expanding their geographic footprint. This has been facilitated by improvements in technology, communication, ease of access to information and increased mobility. But to lower the risks associated with growth to overseas markets, boards now also look at levels lower than CEO for international experience.

The globalisation of Australian salaries has a long way to go in Australia. This is not helped by our taxation system and fluctuating dollar both of which can punish high income earners and be a disincentive. Rather than discouraging offshore candidates to come to Australia, we should be trying to encourage those quality executives with offshore experience to bring extra skills into the nation or to help our businesses grow offshore. The implications of not being serious with keeping in touch with global competitive remuneration levels would lead to a significant fall in the experience and the knowledge base we are able to bring into the country. It has led to loss of talent to Australia as high calibre executives move offshore to better paying roles and the difficulties recruiting talent into the country.

Kind regards,



Craig Mahony