REMUNERATION REPORT (audited)

The remuneration report is set out below under the following main headings:
A. Principles used to determine the amount and nature of remuneration
B. Key management personnel
C. Service agreements
D. Details of remuneration
E. Share-based compensation.

A Principles used to determine the nature and amount of remuneration

The objective of the Group is to ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to corporate and individual performance is defined. Accordingly the Group has adopted remuneration policies that aim to attract and retain talented and motivated Directors and employees so as to encourage enhanced performance of the Group. It is important that there be a clear relationship between performance and remuneration, and that the policy underlying executive remuneration be understood by investors.

The Board aims to ensure that executive reward satisfies the following key criteria as part of its good governance practices:
- Competitiveness and reasonableness;
- Acceptability to Shareholders;
- Performance linkage/alignment of executive compensation; and
- Deliver a balanced solution addressing all elements of total remuneration.

In consultation with external remuneration consultants (where appropriate), the Group has structured an executive remuneration framework that is market competitive and complimentary to the strategies of the organisation. The framework may provide a mix of fixed and variable pay, and a blend of short and long term incentives. As executives gain seniority within the Group, the balance of this mix shifts to a higher proportion of “at risk” rewards. Remuneration is not directly linked to the financial performance of the Group. Remuneration is reviewed annually.

Non-Executive Directors’ remuneration

The current base remuneration was last reviewed with effect from 1 July 2010. The Chairman’s remuneration effective from 1 July 2010 of $65,000 per annum (exclusive of superannuation) is inclusive of committee fees while Non-Executive Directors who chair a committee may receive additional yearly fees. The board subsequently resolved to pay Oliver Yates a fee of $120,000 per annum (exclusive of superannuation) while Chairman or Acting Chairman reverting to the Non-Executive Directors fee if a new Chairman is elected. Non Executive Directors’ fees are determined within an aggregate Directors’ fee pool limit, which was reviewed at the Annual general Meeting in 2010 and was increased to an amount not exceeding $500,000 per annum (excluding superannuation and share based payments). The maximum base salary for non-executive directors currently stands at $55,000 per annum (exclusive of superannuation) per director (other than the Chairman). Non-executive directors are also eligible to participate in the Linc Energy Ltd Employee Option Plan and/or Performance Rights Plan.

Executive pay

The executive pay and reward framework has four components: base pay and benefits; performance-related bonuses; long term incentives through participation in the Linc Energy Ltd Employee Option Plan and/or Performance Rights Plan; and other remuneration such as superannuation and long service leave. The combination of these comprises the executive’s total remuneration.

Base pay and benefits

Base pay is structured as a total employment cost package which may be delivered as a combination of cash and prescribed non financial benefits at the executives’ discretion. Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. External remuneration consultants and data provide analysis and advice to ensure base pay is set to reflect the market for a comparable role. Base pay for senior executives is reviewed annually to assess whether the executive’s pay is competitive with the market. An executive’s pay is also reviewed on promotion. Some executive contracts include guaranteed base pay increases. As part of their base pay arrangements, executives may receive benefits including motor vehicles, car parking, professional memberships and conferences.

Performance-related bonuses

The Group has not paid or provided for performance related bonuses in the current financial year. A formal short-term incentive program may be introduced in the 2012 financial year.