

Annual News Report

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B.C.'s new cash kings

Corporate directors reward executives as B.C. companies recover from recession

By Richard Chu

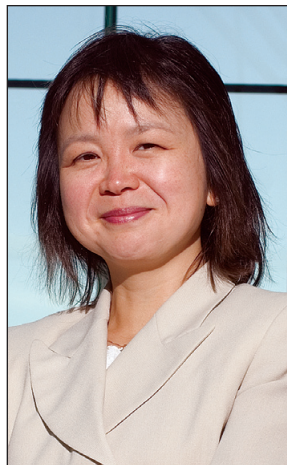
Fear over the debt crisis in Europe and the U.S. might have convinced people that money isn't worth the paper it's printed on. But for B.C.'s top paid public-company executive, as long as countries keep printing money, he'll continue to rake in the cash.

Chad Wasilenkoff, CEO of **Fortress Paper Ltd.** (TSX:FTP), topped this year's list of B.C.'s highest-paid executives by earning a whopping \$16 million in 2010 as his company's revenue and profits jumped from its sale of banknote and passport security paper and other specialty products.

That's pretty good for a contrarian investor and *Business in Vancouver* Forty under 40 award recipient who founded Fortress six years ago after buying a Swiss banknote paper mill and a German specialty wallpaper mill from **Mercer International** near the bottom of the pulp and paper market (see "This paper trail leads to big money" – issue 920; June 12-18, 2007). Some of the increase in his compensation last year resulted from a new six-year employment agreement that boosted his salary to \$1 million from \$480,000 and included an option to earn a larger discretionary annual bonus.

But much of his compensation in 2010 was linked to a performance bonus tied to the company's acquisition from **Fraser Papers** of a specialty cellulose mill in Quebec that closed in April 2010.

According to the company's



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Kai Li, UBC's Sauder School of Business: pay for public company executives grows faster than it does for their private-company counterparts

management information circular, Wasilenkoff was granted \$5 million in restricted share units that he'll earn if the cellulose business can generate earnings of \$225 million by the end of 2014. The remaining \$5 million in share-based compensation was in deferred stock units that will be paid if he decides to leave the company.

His earnings last year placed him atop the list for executive pay on many fronts.

In addition to having the highest cash bonus of any other executive on the list, he had the largest percentage increase in cash compensation: nearly 600% (to \$6 million from \$860,003 in 2009).



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Barry Cook, partner at Western Compensation and Benefits Consultants: "it's not their money on the line; it's the shareholders'"

Bonuses more than double for 15% of top-paid executives in 2010

But Wasilenkoff didn't receive the highest salary. That distinction was left to **Charles Jeannes**, president and CEO of **Goldcorp Inc.** (TSX:G). He took home \$1.3 million in 2010, up from \$1.25 million in 2009.

Other million-dollar salary earners included:

- **Teck Resources'** **Don Lindsay** (\$1.25 million);
- **Lions Gate's** **Jon Feltheimer** (\$1.23 million);
- **Telus'** **Darren Entwistle** (\$1.22 million); and
- **Methanex's** **Bruce Aitken** (\$1.16 million).



Fortress Paper CEO Chad Wasilenkoff: topped this year's list of B.C.'s highest-paid executives

While the combined salaries of B.C.'s 100 highest-paid executives rose 3% last year, on average, most of the compensation increase for executives came in bonuses and share-based awards.

The total value of bonuses rose 46% to \$84.8 million, up from \$58 million paid to executives on last year's list.

On a percentage basis, 15 executives reported at least a doubling in their annual bonus last year; eight posted a 300% year-over-year increase, including **Peter** and **Bruno Wall** of **Wall Financial Corp.** (TSX:WFC), whose bonuses rose to \$4.3 million from \$1 million, and **Westport Innovations' David Demers**, whose bonus rose to \$772,425 from \$192,643.

The total value of share-based compensation more than doubled, jumping 131% to \$96.1 million from \$41.4 million.

The bulk of share-based awards was concentrated in the executives' pay for 19 of B.C.'s largest companies, including Telus, Teck, Goldcorp, **Canaccord Financial** and **West Fraser Timber**.

Are they worth the money?

On the surface, most executives on this year's list were compensated for their company's stronger performance in 2010. About 80% of the 43 companies posted revenue growth and about half reported net profit increases between 2009 and 2010.

But what about those that saw a drop in revenue or a net loss?

Barry Cook, partner at **Western Compensation and Benefits Consultants**, said other factors would likely have been considered to determine an executive's compensation package.

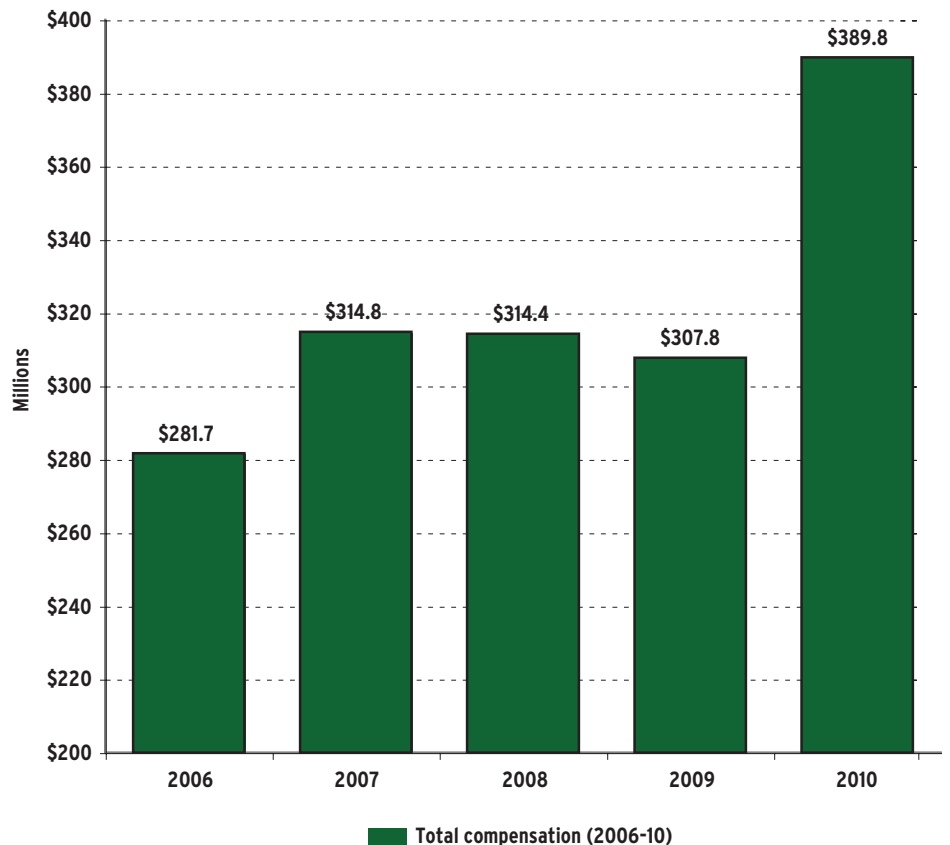
Some mining exploration and development companies, for example, provide bonuses or other types of compensation when development milestones are met, even though they might be far from producing revenue.

They might, for example, post a higher net loss as a result of increased spending on exploration or construction.

"If they're in an early stage of growth, the metrics would change each year.

"Well-designed short-term incentive plans (STIPs) would have a relationship with the annual operating plan and financial plans of the company, and those change each year. An

Total executive compensation (2006-10)



executive's STIP should relate directly to those plans."

While executive compensation appears to rise each year, Cook noted an increasing por-

"Consideration of risk in the incentive plan has been given much more thought"

- Barry Cook,
partner,

Western Compensation and Benefits Consultants

tion of an executive's pay is now tied to a company's future performance. These types of share-based awards appear as performance-based units, or restricted share units, which are granted in a specific year, but are only exercisable if the company reaches milestones over a number of years.

This year, nearly half of an executive's compensation, on average, consisted of share-based and options-based awards.

While companies still grant stock options, well-structured compensation plans also include vesting periods and other requirements before an executive can exercise them. More companies are also evaluating executive pay packages for incentives to take excessive risks with shareholder assets.

"If incentive plans encourage an executive to take undue risk to accomplish something; it's not their money on the line; it's the shareholders,'" said Cook, "so consideration of risk in the incentive plan has been given much more thought."

It pays to lead a public company

The financial crisis has increased scrutiny and transparency around executive compensation. In the U.S., public companies are required to give shareholders the right to have a say on executive pay, and an growing number of Canadian companies are voluntarily following suit, even those that aren't listed on U.S. stock exchanges.

But those changes might not eliminate the

premium that executives receive for running a publicly traded company. A study published last year co-authored by Kai Li of UBC's Sauder School of Business found that pay for public company executives grows faster than it does for their private company counterparts.

The study also found that on average U.S. public company executives receive 6% higher cash compensation and 18% more total pay than private company CEOs.

Li said that's mainly because executives for public companies have to answer to a far wider range of people, including analysts, shareholders and financial intermediaries, than do private company executives.

The annual salary comparisons compensation committees make with other industry executives also help increase executive pay. The study found there was relatively little crossover of executives between private and public companies, which helps maintain the executive pay gap between the two.

While shareholders might want to control executive compensation, doing so would be very difficult. Another published study Li co-authored suggested boards of directors would have a difficult time arbitrarily cutting executive salaries or preventing large increases across the board because such moves would send the wrong signal to executives about their performance. It

would also make it more difficult to retain top talent.

"No firm wants their CEO to feel like a second-class citizen with a lower-than-average pay," said Li.

Her study suggested that CEOs faced with a pay cut are more likely to leave a company or be dismissed even though the cut might be warranted because of poor corporate performance.

Retention was not a problem for CEOs that maintained their level of compensation through a difficult period. Although, if an entire sector did poorly, retention was less of an issue when CEOs faced pay cuts, which suggests that executives can be hit with a "pay cut for bad luck."

Faced with trying to keep taxpayer-supported salaries low, governments and Crown corporations will face more challenges recruiting top talent if executive compensation is not controlled elsewhere in the marketplace.

"In B.C.'s public sector, they're working on a mandate to hold pay levels of executive management and everyone down the line. By and large, the private sector has continued to make salary increases," said Cook.

"At the end of the day, you have to determine whether to compete with the private sector, or cut the hiring pool and hire out of the people who are working in the public sector." ■

rchu@biv.com

Top paid board chairmen

Peter Meredith, deputy chairman	Ivanhoe Mines Ltd.	\$8.9 million
Michael Burns, vice-chairman	Lions Gate Entertainment Corp.	\$7.1 million
Randall Oliphant, chairman	New Gold Inc.	\$6.3 million
Peter Brown, chairman	Canaccord Financial Inc.	\$3.7 million
Yale Simpson, chairman	Exeter Resource Corp.	\$3.5 million

Top paid presidents

John Macken	Ivanhoe Mines Ltd.	\$8.6 million
Paul Reynolds	Canaccord Financial Inc.	\$6.3 million
Bruce Aitken	Methanex Corp.	\$6.2 million
John Smith	Silver Standard Resources Inc.	\$6 million
Paul Wright	Eldorado Gold Corp.	\$5.7 million

Top paid CEOs

Chadwick Wasilenkoff	Fortress Paper Ltd.	\$16 million
Peter Barnes	Silver Wheaton Corp.	\$11 million
Robert Friedland	Ivanhoe Mines Ltd.	\$10.3 million
Charles Jeannes	Goldcorp Inc.	\$9.96 million
Darren Entwistle	Telus Corp.	\$9.94 million

Top paid CFOs

John Currie	Lululemon Athletica Inc.	\$9.2 million
Lindsay Hall	Goldcorp Inc.	\$5.4 million
Gary Brown	Silver Wheaton Corp.	\$4.8 million
Tony Giardini	Ivanhoe Mines Ltd.	\$2.8 million
Cecil Bond	Exeter Resource Corp.	\$2.7 million

Top paid COOs

Steve Reid	Goldcorp Inc.	\$5.6 million
Mark Maybank	Canaccord Financial Inc.	\$2.9 million
Jack Miller	Quadra FNX Mining Ltd.	\$2.4 million
Normal Pitcher	Eldorado Gold Corp.	\$2.3 million
J.T. Lionel Martin	East Asia Minerals Corp.	\$1.7 million

Top paid executive vice-presidents

Sam Riggall	Ivanhoe Mines Ltd.	\$9.2 million
Joe Natale	Telus Corp.	\$4.4 million
Matthew Gaasenbeek	Canaccord Financial Inc.	\$4.2 million
Timo Jauristo	Goldcorp Inc.	\$4 million
David Deisley	Goldcorp Inc.	\$3.8 million