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Summary of key findings in EY's NED fees report

1. Introduction and scope

Port of Tauranga Limited (POTL) has engaged Ernst & Young Limited (EY) to prepare a report in relation to Non-Executive Directors' (NED) fees. We confirm that our report has been prepared independently and is not subject to any influence from the management or any board member of POTL or any third party.

In completing this review of NED fees, it was agreed that POTL's NED fees would be benchmarked against a selected New Zealand comparator group of a similar size or business operations to POTL. This comparator group is made up of 19 organisations that are within a 50%-200% range of POTL's revenue and/or market capitalisation.

The market information pertaining to fee practices within the comparator group has been sourced from EY's Directors' fees database, supplemented with data from the most recent financial year-end annual reports. The information from annual reports is publicly available information. The comparator group has been agreed with POTL as the basis from which to perform our analysis.

The findings summarise the market positioning of POTL's Chair, NED and committee fees compared to the market data. Fees are 'at' the relevant market reference point if positioned within 10% of the market data reference point.

We acknowledge that there is a time lag in remuneration disclosures from the chosen organisations. Generally, Ernst & Young does not support 'ageing' market data to account for this time lag. Therefore, the data used in this analysis is factual and has not been aged.

2. Key findings

2.1 Board Chair and NED policy fee positioning

The table below compares the fees paid to POTL's Chair and other NEDs to market data for fees in the comparator group.

	POTL	Market data				
		Lower quartile	Median	Upper quartile	Average	Sample size
Chair fee policy	168,480	175,245	182,340	239,900	212,702	19
Other NEDs fee policy	88,400	90,585	98,000	117,000	106,230	19
Total NED fee pool	780,000	867,000	985,000	1,369,688	1,101,918	15

- ▶ POTL's Board Chair fee and NED fees are aligned the 25th percentile.
- ▶ The total NED fee pool is positioned below the 25th percentile of the comparator group.



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2.2 Committee fees positioning

The table below compares the fees paid to POTL's committees in comparison to the comparator group.

	POTL	Market data				
		Lower quartile	Median	Upper quartile	Average	Sample size
Audit Committee Chairman Fee	15,600	20,000	31,300	39,625	38,169	16
Audit Committee Member Fee	7,800	11,750	16,300	18,900	15,809	11
Remuneration Committee Chairman Fee	10,400	15,000	20,000	26,000	25,316	13
Remuneration Committee Member Fee	5,200	7,625	10,750	12,688	9,955	10
Nomination Committee Chairman Fee	-	-	-	-	-	2
Nomination Committee Member Fee	-	-	6,500	-	6,470	4

* EY is unable to publish the full interquartile range due to insufficient data.

- ▶ POTL's fee policy for the Audit Committee Chair and Member is positioned below the 25th percentile.
- ▶ POTL's fee policy for the Remuneration Committee Chair and Member is positioned below the 25th percentile.
- ▶ POTL does not pay any fees to the Chair and Member of the Nomination Committee, which is consistent with typical market practice.

3. Recommendations

When developing the recommendations below, we have considered the following factors:

- ▶ The number of meetings required of POTL NEDs in comparison to the comparator group
- ▶ Whether the workload required, or the nature of the governance role has substantially changed since the last review
- ▶ The complexity of compliance and regulation requirements and any change in regulations
- ▶ Current market movements and trends for NED fees
- ▶ Alignment of NED fees to the comparator group.

Based on the considerations above, information provided by POTL's Board and the EY Directors' fee database, our recommended POTL NED fee structure is set out below.

Role	POTL's Current Practice (NZ\$)	Recommended fee (NZ\$)
Chair Base Fee	168,480	175,000
NED Base Fee	88,400	92,000
Committee Fees		
Audit Committee - Chair	15,600	16,000
Audit Committee - Member	7,800	8,000
Remuneration Committee - Chair	10,400	15,000
Remuneration Committee - Member	5,200	7,500
Nomination Committee - Chair	-	-
Nomination Committee - Member	-	-

Note: No additional fees are paid to POTL's Nomination Committee Chair and Members.

The current available fee pool is capped at \$780,000 per annum. The fees received by NEDs of POTL in FY20 were \$763,880.

We understand the current fee pool has not been increased since it was approved in 2020. If the above recommendations are adopted, the fees paid to directors would exceed the current \$780,000 fee pool. Therefore, in order to ensure POTL has sufficient headroom, EY recommends that the fee pool is increased to \$943,000. Increasing the fee pool to \$943,000 will ensure that POTL's headroom equates to approximately 1.5 times the proposed NED base fee.

4. POTL proposal

Having reviewed our recommendations, we understand POTL are proposing the fee structure summarised in *Table 4* below.

Table 4: Recommended fee structure	
Role	Proposed fee (NZ\$)
Chair Base Fee	180,000
NED Base Fee	92,000
Committee Fees	
Audit Committee - Chair	20,000
Audit Committee - Member	11,750
Remuneration Committee - Chair	15,000
Remuneration Committee - Member	7,625
Nomination Committee - Chair	-
Nomination Committee - Member	-

POTL have also advised their proposed fee pool will be \$880,000. We note this is lower than our recommendation of \$943,000.

Thank you for the opportunity to assist POTL with this assignment.



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