

Port of Tauranga Limited

Summary Directors' Fees report

18 August 2016



Michael Smith
Chair of Remuneration Committee
Port of Tauranga Limited
Tauranga

By email: Michael.Smith@hobec.co.nz

18 August 2016

Dear Michael

Market benchmarking of Port of Tauranga Limited Directors' Fees

We are pleased to provide our summary market benchmarking report for directors' fees at Port of Tauranga Limited (Port of Tauranga). Market data in this summary was sourced from data submitted for the 2015 PwC Directors' Fees Report and supplemented with publicly available information.

As discussed this report summarises the more detailed findings of our full benchmark report.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Chris Place', with a small flourish at the end.

Chris Place
Partner



Summary of findings

Benchmark data

We were asked to benchmark the fees of Port of Tauranga non-executive directors (NEDs) against the NED fees of comparable companies in the New Zealand market. This document summarises the benchmark findings outlined in our benchmark report.

Market data was compiled from an agreed peer group of 16 listed New Zealand companies of broadly comparable size to Port of Tauranga by market capitalisation (the primary peer group). The primary peer group companies are listed in Appendix 1.

The agreed primary peer group sample comprised publicly listed companies of similar size to Port of Tauranga (as measured by market capitalisation) that operate within the transport or infrastructure sectors (including energy sector) and/or have comparatively large total asset bases. The sample was more heavily weighted towards companies that are smaller than Port of Tauranga by market capitalisation.

The table below compares the current Port of Tauranga directors' fees against the median of the primary peer group's market data.

Role	Sample	Median	Port of Tauranga	Comparison against median
Chair base fee	16	162,500	118,178	73%
NED base fee	16	85,000	59,089	70%
Audit & Risk Committee Chair	11	20,000	8,742	44%
Audit & Risk Committee Member	10	10,000	4,371	44%
Remuneration Committee Chair	7	15,000	4,371	29%
Remuneration Committee Member	8	5,500	2,186	40%
Total Fee Pool	12	827,500	506,479	61%
Total Actual Fees	16	671,457	505,916	75%

Executive Summary (cont)

As a reasonableness test, we also compared the Port of Tauranga NED fees against the NED fees of a secondary peer group (also listed in Appendix 1) that comprised companies with broadly comparable total asset values to Port of Tauranga.

Although we consider the primary peer group data to be preferred, there was a high level of consistency between the data in the primary peer group and secondary peer group samples, giving comfort in relation to the robustness of the primary peer group data. In our experience there is a better correlation between market capitalisation and listed company directors' fees in the New Zealand market, than between directors' fees and total assets or annual revenues.

In summary, relative to the primary peer group market data we found that:

- The current NED fees for Port of Tauranga were well below the 25th percentile at all levels;
- Port of Tauranga's Remuneration Committee chair and member fees were the least competitive at 29% and 40% of the market median respectively; and
- The total shareholder approved fee pool for Port of Tauranga was 61% of the median.

Application of market data

Port of Tauranga has a *median* directors' fee policy. Based on the market data, we concluded therefore that Port of Tauranga directors fees lag significantly behind the company's desired policy position.

Given the Port of Tauranga current fee position of well below the 25th percentile for all data points in the primary peer group data, we noted in our report that a significant "catch up" would be required to bring Port of Tauranga directors' fees to a median market position.

We concluded further that the Board could however choose to take a conservative approach notwithstanding its intended median market positioning, and consider moving first to a point in a range between the 25th percentile and the median, and then to the median over time, rather than moving directly to the median.

This approach would see a move to a point in the following potential ranges:

Chairman - \$150,000 to \$160,000

Audit Committee Member - \$10,000

NED - \$80,000 to \$85,000

Remuneration Committee Chair - \$7,000 to \$15,000

Audit Committee Chair - \$14,000 to \$20,000

Remuneration Committee Member - \$3,250 - \$5,500

Appendix 1 – Primary Peer Group by market capitalisation

Company	Market capitalisation (\$m) ¹	Revenue (\$m) ²	Gross assets (\$m) ²
Ryman Healthcare	4,670	227	3,312
Mighty River Power	4,097	1,678	6,058
Contact Energy	3,735	2,443	6,089
Vector	3,266	1,294	6,123
Z Energy	3,248	3,064	1,373
Trustpower	2,447	993	3,582
EBOS Group	2,436	6,068	2,550
Genesis Energy	2,110	2,098	3,528
Kiwi Property Group	1,904	206	2,296
Infratil	1,797	1,657	5,948
Chorus	1,699	1,006	3,841
Mainfreight	1,676	2,054	1,124
Goodman Property Trust	1,634	167	2,178
Precinct Properties NZ	1,508	171	1,753
Freightways	1,000	479	499
The New Zealand Refining Company	756	233	1,254
<i>Median</i>	<i>2,007</i>	<i>1,150</i>	<i>2,931</i>
Port of Tauranga Limited	2,668	268	1,297

1. Market capitalisation data sourced from NZX website as of 30 June 2016
2. Revenue and assets figures sourced from most recent annual reports of peer group companies

Appendix 1 – Secondary Peer Group by total assets

Company	Market capitalisation (\$m) ¹	Revenue (\$m) ²	Gross assets (\$m) ²
EBOS Group	2,436	6,068	2,550
Kiwi Property Group	1,904	206	2,296
Metlifecare	936	101	2,227
Goodman Property Trust	1,634	167	2,178
SKY Network Television	1,802	927	1,942
SKYCITY Entertainment Group	2,467	1,037	1,926
Precinct Properties NZ	1,508	171	1,753
Z Energy	3,248	3,064	1,373
Argosy Property	916	98	1,313
The New Zealand Refining Company	756	233	1,254
Mainfreight	1,676	2,054	1,124
Nuplex Industries	783	1,499	1,059
Summerset Group Holdings	855	54	1,043
Property For Industry	688	64	930
Trade Me Group	1,461	200	889
Stride Property (formerly DNZ)	780	57	884
<i>Median</i>	<i>1,485</i>	<i>202</i>	<i>1,343</i>
Port of Tauranga Limited	2,668	268	1,297

1. Market capitalisation data sourced from NZX website as of 30 June 2016

2. Revenue and assets figures sourced from most recent annual reports of peer group companies