

# Review of Current Director Fee Practices

The New Zealand Refining Company  
Limited  
28 February 2018

# 1. Executive Summary

Ernst & Young Limited (EY) has been engaged by The New Zealand Refining Company (Refining NZ) to prepare a report in relation to Directors' Fees. We confirm that our report has been prepared independently and not subject to any influence from the management or any board member of Refining NZ or any third party.

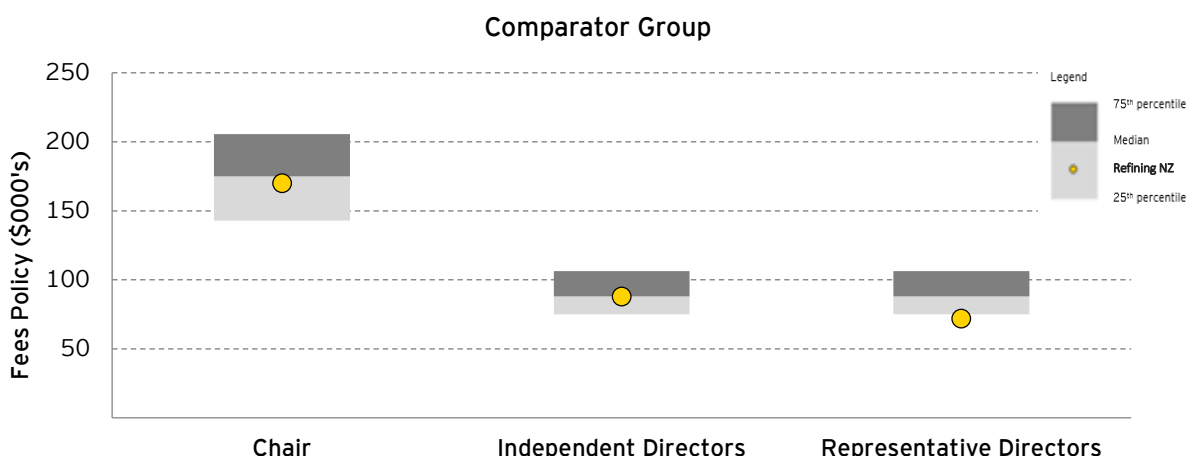
The findings in this section summarise the market positioning of Refining NZ's Chair, Independent Directors, Representative Directors and Committee fees compared to the market data. Fees are considered to be 'at' the relevant market reference point if positioned within 10% of the market data reference point.

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 Annual Reports for some organisations. The information from Annual Reports is publicly available information. When selecting the specific comparator group for this engagement, EY have primarily focused on organisations within the infrastructure and utilities industries. This sample was discussed and agreed with Refining NZ in 2016 as the basis from which to perform our analysis.

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. The data used in the analysis has not been aged.

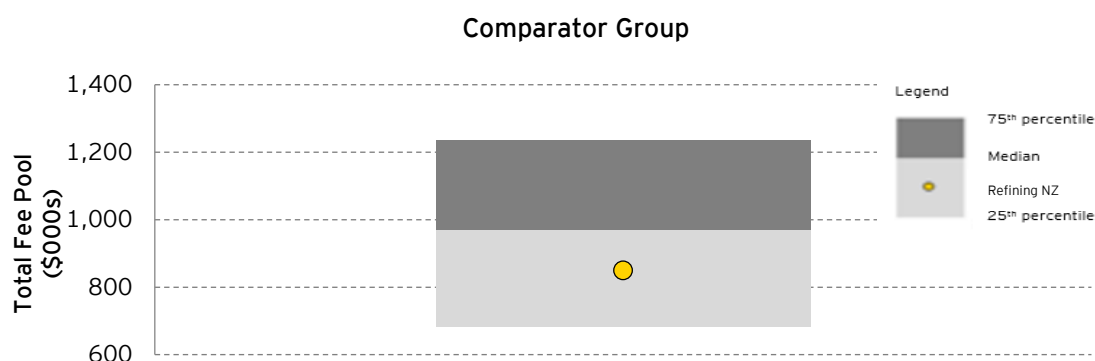
## 1.1 Board Chair and Other NED fee positioning

The diagrams below compare Refining NZ's Chair, Independent and Representative Director fees to the market data for the agreed comparator groups. The diagrams also display the internal relativity of Refining NZ's Chair and Other NED fees.



- ▶ **Chair:** The Chair fee for Refining NZ is aligned to the market median of the comparator group.
- ▶ **Independent Directors:** The Independent Director fees for Refining NZ are aligned to the market median of the comparator group.
- ▶ **Representative Directors:** The Representative Director fees for Refining NZ are below the 25<sup>th</sup> percentile of the comparator group.

The diagram below shows the positioning of Refining NZ's approved maximum aggregate NED fee pool to the approved maximum aggregate NED fee pool of the comparator group.



- ▶ The Fee Pool for Refining NZ is positioned below the market median of the comparator group.

## 1.2 Recommendations

Assuming the existing structure of the board remains unchanged, our recommended fee structure is set out below:

*Table 1: Recommended fee increases*

Role	Refining NZ's Current Practice (\$)	Recommended fee (\$)	Increase (%)
Chairman Base Fees	170,000	180,000	6%
Directors' Base Fee*	72,000 (Representative Directors) 88,000 (Independent Directors)	75,000	
<b>Committee Fees</b>			
Audit, Risk and Finance Committee - Chair	25,000	30,000	20%
Audit, Risk and Finance Committee - Member	12,500	12,500	0%
Remuneration and Nominations Committee Chair	10,000	20,000	100%
Remuneration and Nominations Committee Member	5,000	5,000	0%
Health & Safety Committee - Chair	-	10,000	-
Health & Safety Committee - Member	-	-	-
Independent Directors' Committee	-	20,000	-

The current fee differential between Independent Directors and other Directors is, as we understand it, in place because the Independent Directors are required to provide governance over matters where it would not be appropriate for Board members who are also representatives of major customers to be present. These Independent Directors do not represent, nor are otherwise associated with, major shareholders / customers.

We understand that the Independent Directors meet formally or informally approximately ten times per annum. In our view, this suggests that the workload for these Directors is higher than for other Directors on comparable boards.

EY recommends a base fee is paid to all Directors irrespective of status (Representative or Independent) and a new Independent Director committee fee introduced. This would be payable to the Independent Directors other than the Chairman. The introduction of this new structure will maintain parity with the comparator group whilst promoting greater transparency around the overall fee structure at Refining NZ.

### 1.2.1 Aggregate fee pool

The current available fee pool is \$850,000. The remuneration and other benefits, excluding reimbursements, received by the individual Directors of The New Zealand Refining Company during the year 2016 was \$741,800.

Based on the above recommendations, the total base remuneration due to the individual Directors of Refining NZ would amount to **\$767,500**. With the current fee pool, this equates to a headroom of \$82,500.

EY recommend that the fee pool is increased to **\$900,000**, allowing Refining NZ to hire an additional Director and / or implement additional Committees, should the need arise. Increasing the fee pool to \$900,000 will ensure that Refining NZ's headroom equates to approximately 1.4x the proposed Independent Director fees.



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Our report may be relied upon by The New Zealand Refining Company Limited for the purpose of understanding market remuneration only pursuant to the terms of our engagement letter dated 13 February 2018. We disclaim all responsibility to any other party for any loss or liability that the other party may suffer or incur arising from or relating to or in any way connected with the contents of our report, the provision of our report to the other party or the reliance upon our report by the other party.

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