

Meridian Energy Limited

Summary Directors' Fees report

1 September 2016



Chris Moller
Chairman
Meridian Energy Limited
Auckland

By email:

1 September 2016

Dear Chris

Market benchmarking of proposed Meridian Energy Limited Directors' Fees

We are pleased to provide our report summarising our benchmark findings in relation to directors' fees at Meridian Energy Limited (Meridian). 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 'Jarrod Moyle', written in a cursive style.

Jarrod Moyle
Director

A handwritten signature in black ink, appearing to read 'Chris Place', written in a cursive style.

Chris Place
Partner



Summary of findings

Benchmark data

We were asked to benchmark the proposed FY17 and FY18 fees of Meridian 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.

In our experience market capitalisation has a closer correlation to directors' fees than other metrics such as revenue or total assets, and the peer group was accordingly selected on the basis of market capitalisation. For the purposes of benchmarking, ordinarily we would select a peer group of companies which is relatively evenly weighted between companies that are both larger and smaller than the subject company. Given the size of Meridian relative to the New Zealand market however, this approach would not provide a statistically robust sample (as only two companies are larger by market capitalisation). As a result, market data was instead provided from a peer group made up of the ten largest listed New Zealand companies by market capitalisation (see Appendix 1 for the peer group and the various metrics of the peers).

The table below shows a comparison of the proposed Meridian directors' fees for both FY17 and FY18 against the *median* of the comparator group.

Role	Sample	Median*	Meridian Energy proposed FY17	Comparison against median	Meridian Energy proposed FY18	Comparison against median
Chair base fee	10	221,000	182,500	83%	200,000	90%
Deputy Chair base fee	2		127,000		140,000	
NED base fee	10	105,625	100,000	95%	110,000	104%
Audit & Risk Committee Chair	8	35,394	18,200	51%	22,500	64%
Audit & Risk Committee Member	8	16,642	9,100	55%	10,000	60%
Remuneration Committee Chair	7	23,500	15,000	64%	15,000	64%
Remuneration Committee Member	8	11,300	6,200	55%	9,100	81%
Other Committee Chair	6	22,350	15,000	67%	15,000	67%
Other Committee Member	6	13,500	6,200	46%	9,200	68%
Total Fee Pool	8	1,394,149	994,500	71%	1,100,000	79%

*The median or 50th percentile represents the data point at which 50% of the sample is higher and 50% of the sample is lower i.e. the mid point of the data. For example, in a sample of 10, the median will be exactly halfway between the 5th and 6th ranked data points in the sample.

Summary of findings (cont)

Observations

- Meridian is significantly larger than most of the companies in the sample and is above the 75th percentile in terms of market capitalisation and total assets, with revenues approximately double the median of the sample.
- Although the peer group sample is made up of the ten listed companies which are closest in size to Meridian, the sample is therefore significantly more heavily weighted towards companies that are smaller than Meridian by market capitalisation (only two companies are larger, and eight are smaller).
- The proposed fees for Meridian for FY17 are however below the median of the peer group market data at all levels, with proposed committee member fees for FY17 the least competitive, ranging from 46% to 55% of the market median levels.
- With the exception of the NED base fee, the proposed fees for FY18 remain below the median of the peer group at all levels with committee chair and member fees ranging from 60% to 81% of the market median. We note however there will likely be some upward movement in the market data between December 2015 (when the market data was current) and 2018 however.

Appendix 1 – Peer Group

Company	Market capitalisation (\$m) ¹	Revenue (\$m) ²	Gross assets (\$m) ²
Auckland International Airport	7,686	509	5,102
Spark New Zealand	6,560	3,531	3,206
Fisher & Paykel Healthcare Corporation	5,860	672	670
Fletcher Building	5,838	8,661	7,501
Ryman Healthcare	4,525	227	3,312
Mighty River Power	4,049	1,678	6,058
Contact Energy	3,742	2,443	6,089
Vector	3,326	1,294	6,123
Z Energy	3,260	3,064	1,373
SKYCITY Entertainment Group	3,009	1,037	1,926
<i>Median</i>	<i>4,287</i>	<i>1,486</i>	<i>4,207</i>
Meridian Energy Limited	6,484	2,904	7,661

1. Market capitalisation sourced from NZX website as of 16 June 2016

2. Revenue and assets extracted from most recent annual reports