



KORN FERRY™  
| HayGroup

LEVEL 6, WALKER WAYLAND CENTRE  
68 SHORTLAND STREET, AUCKLAND 1010  
T: 09 921 5900 WWW.KORNFERRY.COM

PRIVATE AND CONFIDENTIAL

21 July 2016

Dame Jenny Shipley  
Chair  
Genesis Energy Limited

Dear Dame Jenny,

**Re: Genesis Energy Limited – Directors’ Fees**

Genesis Energy has once again approached Korn Ferry Hay Group (KFHG) to comment on the level of Directors Fees paid in the current market, and for recommendations on any adjustments that may be appropriate based upon the current levels of Board remuneration at Genesis.

As was the situation in our previous report, we have a high level view on the Company’s expectations on the time commitments of Directors and this document is not intended to provide definitive recommendations on the remuneration levels of individual Directors. A more detailed appraisal would need to be carried out to provide this level of detail.

In addition to the above, we have restated data from a number of sources (Institute of Directors, and Egan Associates) where a revised report has not been available at the time of writing. Updated information from KFHG’s own data samples and published annual reports has been included where appropriate.



## Current level of Genesis Energy fees

We understand that the current fee structure (in addition to reasonable travel expenses and development costs) has not changed since our last report in 2015 and is as follows:

	Chair	Deputy Chair	Chair of HR & RC	Member of Nominations Committee (x1)	Member of Audit Committee (x3)	Member of HR & Audit Committees (x1)
Ordinary Fees	\$145,000	\$100,000	\$80,000	\$80,000	\$80,000	\$80,000
Audit & Risk Committee	-	\$14,000	-	-	\$8,000	\$8,000
Human Resources & Remuneration Committee	\$4,000	-	\$7,000	-	-	\$4,000
Nominations Committee	\$7,000	\$4,000	-	\$4,000	-	-
<b>TOTAL</b>	<b>\$156,000</b>	<b>\$118,000</b>	<b>\$87,000</b>	<b>\$84,000</b>	<b>\$88,000 (Total \$264,000)</b>	<b>\$92,000</b>

We note that The Institute of Directors Report of 2015 (IoD, 2015) states that the average time commitment of a Director has increased substantially over the past year due in part to the new Health and Safety Legislation and other regulations. This is a reality for the majority of Board members in our client organisations and is likely to prevail for the foreseeable future. Their report shows that the average hours required for a non-Executive Chair equated to 241 (306 for non-Executive Chair's in \$1B+ revenue companies); Deputy Chair 206 (325 for Deputy Chairs in \$1B+ revenue companies) and Director 172 (238 for Director's in \$1B+ revenue companies). From our experience this would represent an increase compared to earlier years of at least 20% for a Director, and more than 10% for a Chair.

As noted in our previous report, based upon the information published in the Genesis Energy 2015 Annual Report, it is our understanding that the Board met 11 times last year and in addition, there were four audit and risk committee meetings and four Human Resources and Remuneration Committee meetings.

The Genesis Energy Director's time commitments shown do not include quarterly two-day site visits, which comprise staff meetings, health and safety reviews, iwi relationships and risk assessment. Also excluded from the Company's formal meetings are strategy planning days, stakeholder meetings, and additional commitments which are included in the "Other" category for some of the comparator organisations forming the sample in Table 1 (over the page). Our assumption at this stage is that this pattern will reflect the likely ongoing time commitment in the future. The Other category encompasses Nominations Committees, Governance Committees, Supply Chain, Regulation, Board Strategy sessions and other sundry meetings.



Our ongoing assessment is that the time commitment required of Genesis Energy Directors and the Chair would be no less than the average time for comparable sized governance roles in other organisations.

Company size may be assessed by a number of different dimensions including Total Assets; Shareholders Funds; Revenue and Market Capitalisation. The most accepted method is revenue based. This is our preferred approach and it is this approach which forms the basis of our recommendations in this letter. In the tables which follow, we present a range of data from a number of sources to provide relevant market comparisons for Board remuneration.

The two tables below summarise the overall commitments of Board Directors across the New Zealand market for listed organisations with revenues between \$1B and \$5B. The first relates to energy and related organisations whilst the second summarise the remainder of the companies in this cohort. A full listing of all organisations appears in the Appendix.

**Table 1: Meeting Commitments for New Zealand Energy and Related Listed Companies with Revenues \$1B - \$5B**

Organisation	Number of Directors	Board Meetings	Audit and Risk	Human Resources	Total Meetings
Chorus	7	11	6	5	22
Contact Energy	4	11	7	3	21
Genesis Energy	8	11	4	4	19
Meridian Energy	9	11	6	6	23
Mighty River Power	8	10	4	6	20
Vector	8	14	11	3	28
Z Energy	7	8	4	5	17
<b>Median (energy and related orgs)</b>	<b>8</b>	<b>11</b>	<b>6</b>	<b>5</b>	<b>21</b>

**Meeting Commitments for Other Listed Companies with Revenues \$1B - \$5B**

<b>Median Other</b>	<b>7</b>	<b>11</b>	<b>4</b>	<b>4</b>	<b>18</b>
---------------------	----------	-----------	----------	----------	-----------

Whilst the information presented above relates to FY2015, we note that in FY2016 Board members were involved in a separate Strategy Workshop (which would



technically qualify as an additional Board meeting), Health and Safety Site Visits in addition to their regular Board meeting commitments. In addition, there were five Nominations Committee meetings.

The CEO search committee also met six times and there were three site visits adding two extra days to scheduled Board meetings. The Chairman and other directors were also involved in numerous stakeholder and investors meetings some locally in Auckland and others involving travel to Wellington and other parts of the country where the Company's assets are located.

The following table presents data from the 2015 IoD Report which summarises fees for organisations with revenues in excess of \$1B as follows:

**Table 2: 2015 IoD Survey**

	Lower Quartile	Median	Average	Upper Quartile	Genesis
Non-Executive Chair	\$107,500	\$165,500	\$181,572	\$240,000	\$145,000
Deputy Chair	\$65,875	\$74,802	\$90,674	\$106,375	\$100,000
Director	\$66,250	\$99,225	\$99,429	\$131,125	\$80,000

Note that this data remains unchanged since our last letter of advice as the IoD 2016 survey has not been released.

**Table 3: Hay Group Directors Report 2015**

Main Board Fees (Total) – 2015 – Revenue (NZ\$) over \$1B				
Role	Average	Median	Q3	Number of Companies (People)
Chair	\$329,140	\$245,000	\$392,204	26 (26)
Deputy Chair	\$117,883	\$118,500	\$152,375	6 (6)
Other	\$147,512	\$127,112	\$173,189	26 (161)

The figures in this table indicate that there has been an increase of 11.4%, 3.0% and 7.8% across the Chair, Deputy Chair and "Other" Director categories since our 2014 Directors Report.



## Table 4: Egan Associates

Quoting the 2015 Egan Associates report, “To ensure the data provided in this report is relevant, the market capitalisation of Genesis Energy has been used. In this context Genesis Energy would fit within the 11<sup>th</sup> to 50<sup>th</sup> ranking on the NZX where the median market capitalisation is \$657m, with an average of \$971m”.

We note that this report has not been updated at the time of writing, and we continue to assert that, in our experience, market capitalisation is not a common measure for setting Directors’ remuneration.

Director Levels	Total Chair and Non-Executive Director Fees – Top 50	
	Median	Average
Non-Executive Chair	\$142,970	\$166,870
Other Non-Executive Directors	\$87,380	\$97,570

## Table 5:- Summary of Data – Total Fees – NZ Top 50

Our latest research based on the organisation sample drawn from the table appearing in the Appendix derives a slightly different result as follows. NB: These are aggregate fees including committee fees:

	Lower Quartile	Median	Average	Upper Quartile	Genesis
Non-Executive Chair	\$165,000	\$198,450	\$219,773	\$223,000	\$160,000
Deputy Chair	N/A	\$119,000	\$128,250	N/A	\$118,000
Director	\$87,154	\$99,501	\$111,192	114,207	\$87,000



## **Fee pool based upon remuneration by director (New Zealand listed companies with revenues \$1B - \$5B)**

If we consider Median fees per Director across the peer group across the sample of 18 organisations in the Appendix, and normalising the data to account for the fact that Genesis has 8 Directors, the result is a median fee per Director of \$109,400. While this calculation does not account for differentials by level of Board member (e.g. Chair vs. Director), it serves as a useful point of comparison. Adopting this approach translates into a fee pool for the 8 Genesis Board members of \$875,100.

It should be noted that when the size of a Board remuneration pool is being determined “headspace” for out of cycle increases must be factored in. An example of an out of cycle increase might be during a potential acquisition where the time commitment of any given Board member may increase significantly. With this in mind, many Boards elect to create a buffer in their overall pool to provide for adjustments to be made before asking for shareholder approval to increase the size of the pool. This buffer is typically around 25% on top of the value of the overall pool. Applying a 25% premium over the baseline increment required to simply align with the current data translates into an elevation in the fee pool from \$805,000 to \$984,500 which is an overall increase of \$179,500 (22%).

### **Distribution of funds**

When applying a fee pool approach to Board remuneration we recommend that the distribution of the pool be transparent and any reserves disclosed. In addition, standard differentials based upon role and committee attendance should be noted. Based upon our experience, we believe that the following guidelines still apply. In the majority of organisations, the Chair normally receives double the standard remuneration of a non-Executive Director. The Deputy Chair (where the role still exists) will typically receive a premium of between 25% and 50% over a Director. The margin varies according to the additional responsibilities, committee attendance and in particular the Committee Chair duties associated with the role.

### **Trends in fee increases**

We continue to observe Directors’ fee movement tracking those of senior Executives and ranging from 2% - 4% annualised. The 2015 IoD report indicated overall movements of 2.9% in Chair Remuneration over the past year; 7.1% in Deputy Chair fees and 4% in Directors remuneration. Companies with revenues exceeding \$1B, fees increased by 10.6%, SOE fees increased by 2.5%; and Listed Companies by 8.2%.

It is interesting to note that in recent weeks there has been an apparent increase in the number of Boards requesting shareholder approval for significant increases in Board fees. This is likely a reflection of the fact that many Boards have either not requested or alternatively been granted fee increases for a number of years. Based upon sustained company performance, in the majority of cases, there is strong rationale underpinning the claims for the increases that are being requested.



## Provisional recommendations

All of the analysis completed to date indicates that the fees paid to Genesis Directors' are below the Median of the market based upon a number of measures and peer group comparisons. Any changes to the existing fee structure would be the first in more than two and a half years.

With movements in the market since our 2015 report, where a 10% increase in the overall fee pool was recommended, we now suggest that an increment of 22% to the overall pool be approved. This would lift the pool from \$805,000 to \$984,500. In addition to market movements, we noted in our last report that the proposed 10% increase would fall short of closing the gap with the market Median. The increase recommended in this report addresses this shortfall.

We would also continue to recommend that part of the pool increase be used to elevate the margin for the Chair over the Directors, closer to the 100% premium that is traditional Board practice amongst large organisations.

Kind regards,

Brent Miller

Senior Principal

Korn Ferry Hay Group – Auckland, New Zealand



## Appendix

### Meeting Commitments for New Zealand Listed Companies with Revenues \$1B - \$5B

Organisation	Number of Directors	Board Meetings	Audit and Risk	Human Resources	Total Meetings
Air New Zealand	8	12	4	7	23
Chorus	7	11	6	5	22
Contact Energy	4	11	7	3	21
Downer	7	11	6	4	21
Ebos	8	10	3	1	14
Genesis Energy	8	11	4	4	19
Infratil	6	11	5	-	16
Mainfreight	6	7	-	-	7
Meridian Energy	9	11	6	6	23
Mighty River Power	8	10	4	6	20
Nuplex	6	11	-	-	11
PGG Wrightson	7	6	4	3	13
Silver Fern Farms	8	16	-	-	16
Spark	7	8	6	5	19
The Warehouse	7	17	4	5	26
Vector	8	14	11	3	28
Z Energy	7	8	4	5	17
Zespri	8	13	7	4	24
<b>Median All</b>	<b>7</b>	<b>11</b>	<b>5</b>	<b>5</b>	<b>20</b>