

Spark New Zealand Limited

Review of Director Fees

Summary of EY report dated 12 June 2017

1. Introduction

Spark New Zealand Limited (Spark) engaged Ernst & Young (EY) to undertake an independent review of the organisation's current Director fee pool and provide commentary regarding the proposal from the board of Spark (the Board) to seek an 8.7% fee pool increase. The following provides a summary of our findings and our conclusions. In preparing the report on which this summary is based, we have exercised and acted with due independence.

2. Approach

A specific comparator group was identified by EY, consisting of the NZX10 (excluding Spark), plus data from the boards of the three NZ trading banks. This sample was discussed and agreed with Spark New Zealand as the basis from which to drive analysis. Market capitalisation and revenue data for the companies in the comparator group is shown below:

Comparator group		
Company	12-month average market capitalisation to 19 May 2017 (\$m)	Revenue as at most recent year end (\$m)
ANZ (NZ) ¹	-	3,854
Auckland Airport	8,068	573
Bank of New Zealand ²	-	2,269
Contact Energy	3,581	2,163
Fisher & Paykel Healthcare	5,413	815
Fletcher Building	6,670	9,004
Meridian Energy	6,931	2,375
Ryman Healthcare	4,448	261
Sky City Entertainment Group	2,847	998
Sky Network Television	1,734	928
Westpac (NZ) ³	-	2,144
Z Energy	3,093	3,871
Number of companies	9	12
25th percentile (\$m)	3,093	871
Median (\$m)	4,448	2,144
75th percentile (\$m)	6,670	3,114
Average (\$m)	4,754	2,438
Spark New Zealand (\$m)	6,576	3,497

Spark's market capitalisation is at the **75th percentile** of the comparator group and revenue is above the **75th percentile** relative to the comparator group. Note that the market capitalisation sample excludes the three banks. Positioning of fees in this statement should be considered in conjunction with Spark's market capitalisation and revenue position against the relevant comparator group.

¹ ANZ (NZ) is not publically listed.

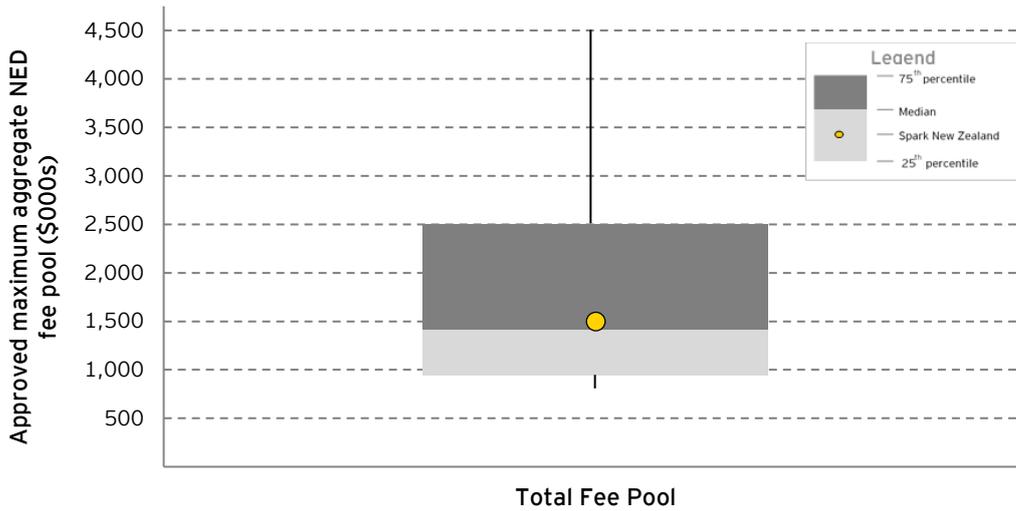
² Bank of New Zealand is not publically listed.

³ Westpac (NZ) is not publically listed.

3. Results of review

3.1. Total fee pool

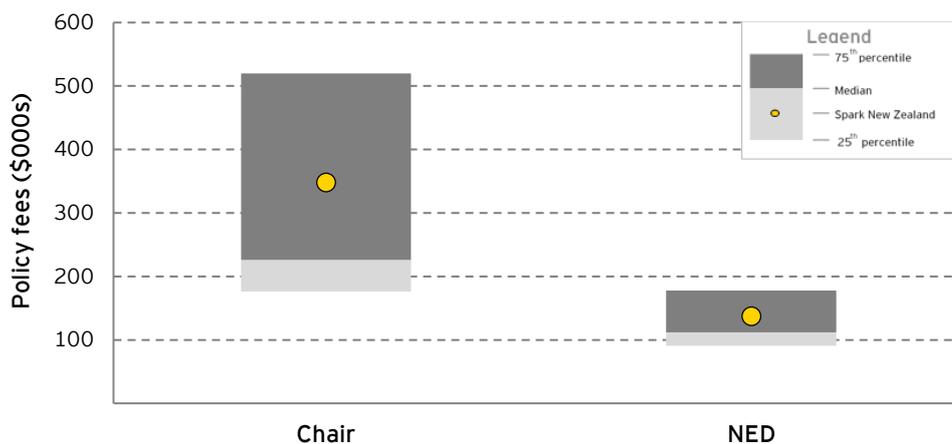
The diagram below shows the positioning of Spark’s approved aggregate NED fee pool to the approved maximum aggregate NED fee pool of the comparator group.



- ▶ **Total fee pool:** Although Spark’s market capitalisation aligns to the **75th percentile** of the comparator group and Spark’s revenue is above the **75th percentile** of the comparator group, Spark’s fee pool equates to the **median** of the market capitalisation comparator group.

3.2. Chair and NED fee positioning

The diagram below compares market data for disclosed Chair and NED policy base fees of companies in the comparator group to the current fee policy at Spark.



- ▶ **Positioning:** Spark’s Chair and NED fee policies are both positioned between the **median** and the **75th percentile** of the comparator group.

3.3. Headroom

The average headroom (defined as the total fee pool less current fees paid, and expressed as a multiple of average NED fees, excluding Chair) is **1.54x** for companies in the comparator group. Spark's current headroom equates to **0.7x** average NED fees.

4. Conclusion

The results of our analysis suggests Spark's current fee pool is at the median of the comparator group, yet based on available market capitalisation Spark is at the 75th percentile, and above the 75th percentile for revenue.

At 0.7x average NED fees, Spark does not have sufficient headroom to accommodate the inclusion of any additional directors or more than 1 year's fee increase. Ideally, Spark would benefit from increasing its fee pool to allow for headroom equivalent to 1.25x - 1.5x the average NED fee.

We understand the Board resolved to recommend an 8.7% increase in the fee pool to shareholders for approval. The proposed fee pool of \$1.63m would position Spark's fee pool between the median and the upper quartile of the sample and therefore appears to be supported by the market data sourced by EY. It would also provide for headroom of approximately 1.48x current average NED fees.

While NED fee levels are typically reviewed (not necessarily increased) annually, NED fee pools are not. Consequently, any pool increase should be sufficient to provide adequate headroom for 3-5 years. Spark should consider fee pool usage reflecting CPI, and the possibility of NED succession (e.g. would Spark at some point have an overlap of incoming / outgoing NEDs). For example, an increase to \$1.75 million (an 11.7% increase) would provide several years headroom (or 2.6x average NED fees), while being between the median and the 75th percentile.



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5. Appendix A: Methodology

5.1. Remuneration data

- ▶ Market remuneration data used in the analysis has been sourced from a combination of Annual Reports and EY's Institute of Directors Remuneration Survey.
- ▶ EY have included remuneration quantum information for companies in the NZX10 index and the three trading banks ANZ, Westpac, and BNZ. The NZX10 companies are the largest 10 companies in the S&P/NZX50.

5.2. Spark New Zealand data presented

- ▶ Base fee data was provided by Spark New Zealand by email on 24 May 2017
- ▶ The policy fee data presented for Spark was presented as follows:

Role	Chair	Other NED/Member
Board	357,100	140,700
Audit and Risk Committee	37,900	18,400
Human Resources and Compensation Committee	32,500	16,200

5.3. Market data presented

- ▶ The market data includes individuals who were in their role for the full financial year.
- ▶ Policy fees are typically more useful for determining underlying fee structures, especially for other NEDs, as they differentiate between board and committee fees. However, as disclosure of policy amounts for board and committee fees are voluntary, data may not be available for all companies in the comparator group.

5.4. Sample sizes

- ▶ The 25th and 75th percentiles for each element are presented provided the market sample size contained seven data points or more. The median is presented where there were four data points or more. The average is presented where there were three data points or more. Where less than three data points were available, line-by-line data is provided.

5.5. Market positioning

- ▶ Fees were considered to be 'at' the relevant market reference point if Spark New Zealand's incumbent fees were positioned within 10% of the market data reference point.

5.6. Ageing of market data

- ▶ Generally, EY does not support 'ageing' market data to account for the time lag in remuneration disclosures. The data used in the analysis has not been aged.

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Our report may be relied upon by Spark New Zealand Limited for the purpose of understanding market remuneration only pursuant to the terms of our engagement letter dated 26 May 2017. 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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