

Review of Non-Executive Director Fee Practices

Summary report

Freightways Limited

12 August 2021

1. Executive summary

Freightways Limited (Freightways) has engaged Ernst & Young Limited (EY) to prepare a report in relation to Non-Executive Directors' (NED) fees. We confirm that our report has been prepared independently and is not subject to any influence from the management or any board member of Freightways or any third party.

The findings in this section summarise the market positioning of Freightways' Chair, NED and committee fees compared to the market data. Fees are 'at' the relevant market reference point if positioned within 10% of the market data reference point.

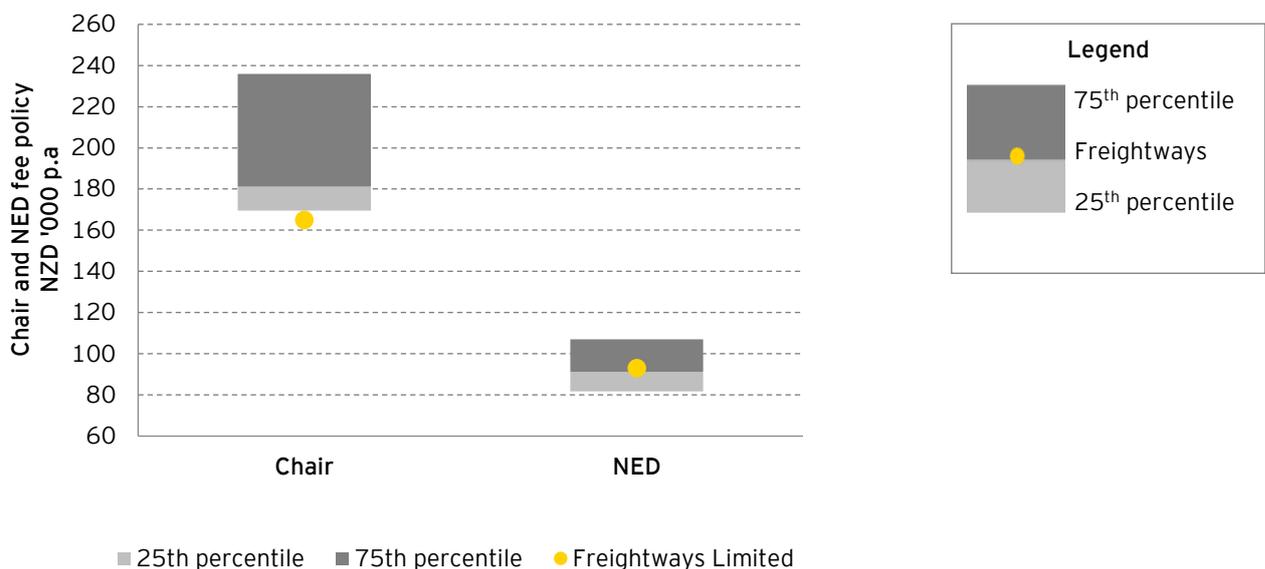
The market information pertaining to fee practices within the comparator group has been sourced from EY's Directors' fees database, supplemented with data from the most recent financial year-end annual reports. The information from annual reports is publicly available information. The comparator group has been agreed with Freightways 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, EY does not support 'ageing' market data to account for this time lag. Therefore, the data used in this analysis is factual and has not been aged.

1.1 Board Chair and NED policy fee positioning

The diagram below displays the internal relativity of Freightways' Chair fees and NED fees as well as the fee pool compared to the agreed comparator group. A full list of the comparator group is outlined in Appendix A.

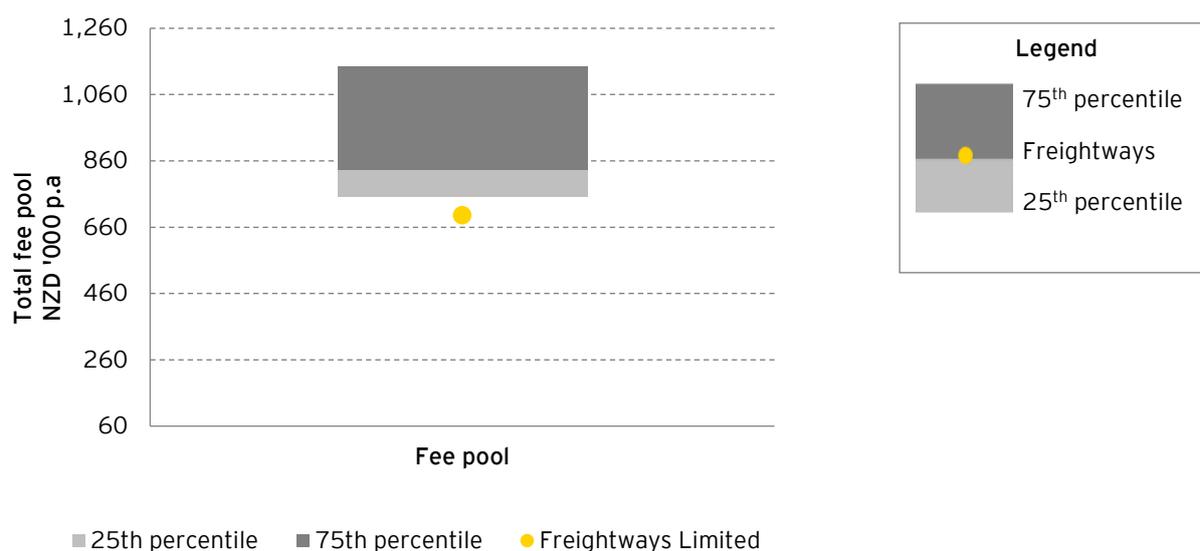
Chart 1: Freightways' Chair and NED fee positioning to market



- ▶ **Chair:** The Board Chair fee is aligned to both the median and the 25th percentile.
- ▶ **Other NEDs:** Board NED fees are aligned to the median.

The following diagram compares Freightways' approved maximum aggregate NED fee pool to the approved maximum aggregate NED fee pools of the agreed comparator group.

Chart 2: Freightways' Chair and NED fee pool positioning to market



- ▶ Freightways' total NED fee pool is aligned to the 25th percentile of the comparator group.

1.2 Recommendations

When developing the recommendations below, we have considered the following factors:

- ▶ The number of meetings required of Freightways NEDs in comparison to the comparator group
- ▶ Whether the workload required, or the nature of the governance role, have substantially changed since the last review
- ▶ The complexity of compliance and regulation requirements and any change in regulations
- ▶ Current market movements and trends for NED fees
- ▶ Alignment of NED fees to the comparator group.

Based on the considerations above, information provided by Freightways' Board and the EY Director fees database, our recommended Freightways NED fee structure is set out below.

Table 1: Recommended fee structure		
Role	Freightways' Current Practice (NZ\$)	Recommended fee (NZ\$)
Chair Base Fee	165,000	185,000
NED Base Fee	93,000	105,000
Committee Fees		
Audit and Risk Committee - Chair	11,000	20,000
People and Remuneration Committee - Chair	7,000	15,000
Nomination Committee - Chair	-	-

Note: No additional fees are paid to Freightways' Nomination Committee Chair or to any committee members.

1.3 Aggregate fee pool

The current available fee pool is capped at \$696,045 per annum. The fees received by NEDs of Freightways in FY21 were \$611,000 for six NEDs (including the Chair).

We understand that the number of Directors has increased to seven (including the Chair). The new Board structure means fees at current rates will exceed the current fee pool.

Therefore, if the above recommendations are adopted and to ensure sufficient headroom, EY recommends that the fee pool is increased to \$1,000,000. This will provide for the recommended increase and allow headroom of 1.4x the proposed NED fee.

Thank you for the opportunity to assist Freightways with this assignment.



Una Diver
Partner - People Advisory Services
Ernst & Young Limited

Appendix A

Freightways' comparator group company financial comparisons (n=15)

Organisation*	Market Capitalisation (\$ millions)	Revenue (\$ millions)	Total Assets (\$millions)
Air New Zealand Limited	1,746.0	4,836.0	7,543.0
Auckland International Airport Limited	11,074.3	567.0	9,297.2
Chorus Limited	2,789.4	959.0	5,642.0
Kiwi Property Group Limited	1,860.6	234.0	3,336.0
KiwiRail Holdings Limited	-	639.2	1,771.2
Mainfreight Limited	7,703.4	3,543.8	2,486.0
New Zealand Post Limited	-	911.0	1,920.0
Port of Tauranga Limited	4,646.2	302.0	1,817.0
Precinct Properties New Zealand Limited	2,527.8	151.8	3,185.0
Pushpay Holdings Limited	1,932.5	181.0	117.1
Restaurant Brands New Zealand Limited	1,952.5	924.7	1,172.9
SkyCity Entertainment Group Limited	2,592.3	901.9	2,551.9
Summerset Group Holdings Limited	3,089.1	172.4	3,893.2
Tilt Renewables Limited	3,058.8	128.3	1,730.0
Trustpower Limited	2,550.7	952.8	2,342.4
Freightways Limited	2,077.5	811.0	1,050.4
25 th percentile	1,952.5	207.5	1,794.1
Median	2,592.3	639.2	2,486.0
75 th percentile	3,089.1	938.8	3,614.6
Average	3,655.7	1,027.0	3,253.7
Relativity to the comparator group	Between the 25 th percentile and median	Between the median and 75 th percentile	Below the 25 th percentile

*Vital Healthcare Property Trust was included in the initially agreed comparator group but was excluded from this analysis because the organisation is being managed by NorthWest Healthcare Properties Management Limited and does not disclose Board remuneration in its annual report.

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