GEOFF NUNN & ASSOCIATES
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Board & Executive Remuneration Reviews—2023

2023 - A Volatile Year in Executive Remuneration

2023 started out under something of a cloud. Conflicts across the globe with accompanying economic challenges have pushed inflation to an unsustainable level. Notwithstanding this executive remuneration recovered after almost three years of relative stagnation. In our primary utilities and renewables markets we saw increases in Fixed Annual Remuneration of between 2.5% and 3.5% at the median in 2022. Board fee increases remained flat with a 0.5% movement.

Approaching the 2023 Annual Review

The conduct of Fixed Annual Remuneration Reviews for the CEO and executive team raises a number of key issues. We suggest remuneration committees take into account the following factors when considering how to proceed with this year's review:

1. **Benchmarking.** As mentioned above the market recovered in 2022. You need to benchmark your executives against like organisations to and understand your current positioning. Further restraint might be inappropriate. Our 2023 ***Utilities Benchmark and Renewables Benchmark*** provide a good starting point for your market reality check.

2. **Executive Team Profile:** We believe the following roles will continue to be in high demand during 2023:
   - Chief Executive Officer
   - Chief Operating Officer
   - Chief Financial Officer
   - Chief Information Officer
   - General Manager Strategy
   - General Manager Assets/Major Projects

   This demand will push up rates as companies vie for top performers. Whist remuneration is only one factor in an executive's decision making about changing jobs, it is an important one. High calibre executives know their worth in the marketplace. Major developments, particularly in the renewables space, will fuel the market.

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In this Newsletter we discuss the vexed question of how companies should approach the 2023 annual review of remuneration for CEOs, executives and non-executive directors. Our primary focus will continue to be on utility and renewable companies where we have a comprehensive database of remuneration information covering leadership positions. See Pages 2-3. 2023 will be a year of challenges for remuneration committees as they wrestle with the question of how to reward sustained performance in a volatile market.

Geoff Nunn & Associates

Geoff Nunn & Associates was established in 1993 as an independent provider of services to the government and corporate sectors. We specialise in working with Boards and CEOs in the areas of corporate governance, board dynamics and renewal, governance structures and executive remuneration strategy.

Our Services

- Board & Executive Remuneration
- Innovative Remuneration Solutions
- Utilities and Renewables Benchmarking
- Remuneration Governance
- Board Governance Advice
- Focused Board Renewal
- Board Charter Drafting

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3. **Affordability.** Our ***Utilities Benchmark*** indicates that revenue and return on equity recovered for many companies in 2022. The degree to which this can be sustained remains to be seen with NZ moving into technical recession in June 2023.

4. **The Risk Environment:**

- **Key Person Risk:** the loss of key directors and executives to competitors or clients.
- **Climate Risk:** environmental degradation resulting in further catastrophic weather events which damage infrastructure.
- **Economic Risk:** a meltdown in financial markets which results in an increase in the cost of capital and rising unemployment.
- **Cyber Risk:** attacks on key operational systems.
- **Regulatory Risk:** an unfavourable regulatory decision compromising an entities economic viability.

When Not Enough is Too Much—The Governance Conundrum

Boards and Remuneration Committees need to ask a few key questions when approaching the 2023 review of fixed remuneration. They also need to ensure that their broader executive remuneration strategy is facilitating the attraction and retention of the best senior leaders:

1. Is our market positioning for Fixed Annual Remuneration going to enable us to attract the best CEO and executive team who can deliver on our corporate strategy and transition pipeline?
2. Is the balance of short and long term incentives appropriate to reward performance without compromising affordability and cashflow?
3. Have we got the right tracking mechanisms in place to enable us to effectively evaluate corporate and individual performance over the short, medium and longer term?
4. Is our risk management framework sufficiently robust to ensure that we are not rewarding inappropriately achieved outcomes?
5. Have we documented our board and executive remuneration strategy effectively and does it meet the governance requirements of our stakeholder and regulators?
6. Have we communicated effectively with our CEO and other executives about the content and purpose of our executive remuneration strategy?

The Renewables Revolution

The Governance Landscape

The governance environment around CEO and executive remuneration presents a number of challenges. Calls for restraint continue to be heard from a range of stakeholders. We suggest Remuneration Committees consider the following principles when making executive remuneration strategy decisions:

- Remuneration levels should be sufficient to attract and retain capable directors and executives without being excessive and fueling the market.
- All remuneration decisions should be subject to a "one level removed" overview to ensure bias is minimized.
- Remuneration packages should be structured in such a way as to minimize flight risk.
- The overall remuneration strategy needs to be formulated in accordance with best practice governance, industry standards and the regulatory environment.
- Where STI and LTI plans are in place the Remuneration Committee needs to look beyond the metrics and take into account the way that results were achieved.
- Environmental imperatives need to be factored into STI and LTI plans. We've seen environmental metrics find their way into variable reward plans over the last two years.

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State of the Market
Utilities 2023

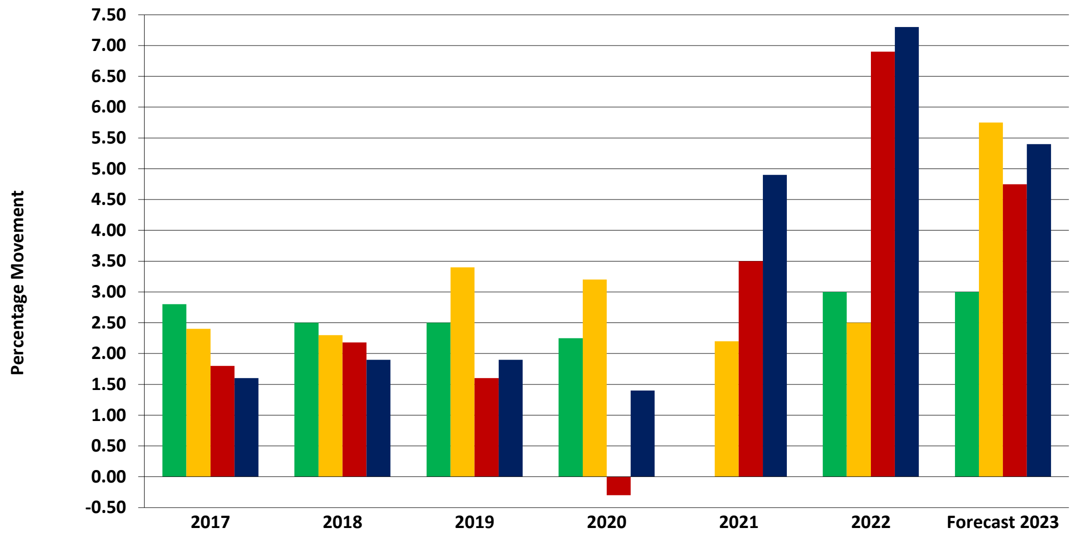
How is the Market Tracking for CEO and Executive Remuneration?

Each year we monitor movements in CEO and executive team remuneration and have done so for many years. One thing we've observed over the last 12 months is that there is "pressure" in the market. As utility companies vie to secure the best leadership team many are paying a premium attract the right people. The following graph tells the story of trans Tasman movements over the last five years together with our forecast to FY 2023:

A Strategic View

As mentioned previously retention is not just about the money. It's about opportunity to achieve, board and leadership relations, stakeholder engagement, proactive and empathetic cultures and development opportunities. It's about the opportunity to be part of the future.

Utilities Sector Market Movements vs CPI
CEO & Executive Team 2017-2022 with Forecast 2023



	2017	2018	2019	2020	2021	2022	Forecast 2023
Utilities Sector	2.80	2.50	2.50	2.25	0.00	3.00	3.00
AWOTE Australia	2.40	2.30	3.40	3.20	2.20	2.50	5.75
CPI Australia	1.80	2.18	1.60	-0.30	3.50	6.90	4.75
CPI NZ	1.60	1.90	1.90	1.40	4.90	7.30	5.40

Market forecasts of 3.0% to 3.5% movement in fixed remuneration may prove to be conservative. Already renewable companies are soaking up key people from traditional utilities and other sectors. Some skill sets are readily transferable, such as GM People, CFOs and CIO. Others are more industry specific such as the GM Economic Regulation and COO.

Retention is important. Market movements do not take into account the cost of recruitment. A medium sized private sector utility looking for an experienced CEO might expect to offer a package of up to $1.5 m (Total Reward Opportunity). Search consultant fees could run $150k to $225k. If the employing company needs to buy out undelivered STI and LTI awards from the previous employer this could add a conservative $200k to the cost of recruitment. The message: do what's required to keep your good leaders.

Contact us if we can assist. We're tracking development across the general utilities market, electricity, gas and water as well as the expanding renewables sector. We've been in this space for 25 years and know it well. Our expertise covers board and executive remuneration as well as corporate governance and strategic navigation.

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