GEOFF NUNN & ASSOCIATES

Governance and Board Advisors

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Approaching the 2024 Annual Executive Review

Equity and Performance—Finding Balance

Each year, remuneration committees confront the daunting task of overseeing the annual review of Fixed Annual Remuneration for the CEO and executive team. Inevitably it's a case of balancing market competitiveness, affordability, performance and internal relativities. It's also an opportunity to affirm the very real value your organisation places on key executive team members.

We've been working in this space for a long time and offer the following guidelines to assist conducting the review:

1. **Market Competitiveness** - you need to benchmark your CEO and executive roles against like organisations in the utilities and renewables sector. It's a tight market and you need to be appropriately positioned to attract and retain the best leaders. They know who they are and what they're worth. Our Utilities and Renewables Benchmark Reports provide a useful market analysis.
2. **Affordability** - capacity to pay is an important consideration. Financial performance, organisational life stage, the need to generate shareholder returns, debt levels and other financial factors all have a bearing. But you also need to consider the cost of replacement should a key executive decide to accept a better offer.
3. **Performance** - corporate and individual performance need to be primary drivers of the annual review. Sometimes even the best performance measurement systems miss the nuances of an executive's contribution. So some flexibility is required and the Chair is best placed to assess this with the CEO and the CEO for level 2 executives.
4. **Internal Relativities** - how your executive team are paid relative to one another is important. Usually the CFO and COO follow the CEO in importance. But this is not always the case depending on structure and corporate priorities. Next comes the Chief Customer Officer and CIO followed by other key support functions. Your executive team need to feel they are appropriately placed relative to their internal as well as external peers.

Utilities & Renewables Benchmark Reports 2024 Now Available

Utilities Benchmark $1750 plus GST

Renewables Benchmark $1,250 plus GST

Contact Geoff at gtnunn@gna.net.au

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 remuneration governance, remuneration strategy development, remuneration structures, non-equity variable reward plans and remuneration committee charter drafting.

Our Services

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

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Approaching the 2024 Annual Executive Review

What's Happening in the Market

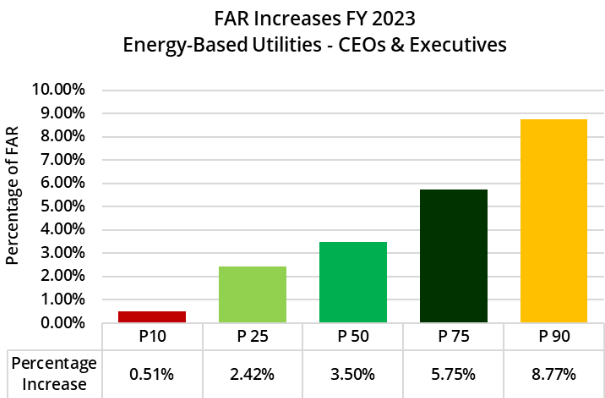
The market recovered for executive remuneration increases in 2023 after three years of relative stagnation. In the utilities and renewables sectors this was largely driven by the number of renewable projects in the pipeline and upgrades to existing infrastructure. So lets have a look at three distinct groupings:

1. Energy-Based Utilities
2. Renewable Companies
3. Water Utilities

There is considerable overlap between 1 and 2 above. All energy-based utilities have multiple renewable projects underway and will eventually become 100% renewable companies as the economy transitions.

Energy-Based Utilities

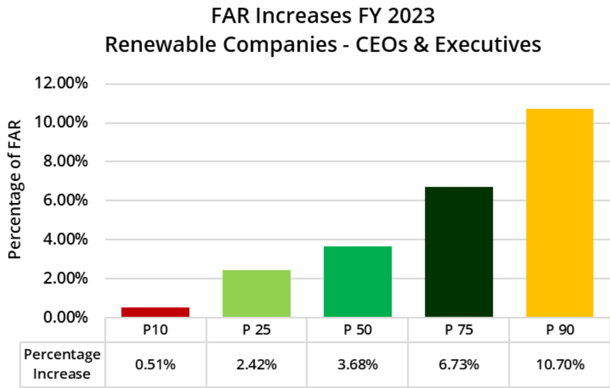
There has been churn amongst the executive ranks over the last two years as traditional utilities compete with the renewables to attract the best talent. To counter this some have been awarding significant increases to fixed remuneration, which then flows into STI and LTI plans. The following graph illustrates:



We've seen increases of 10.0% and beyond at the upper end with the Median increase siting 3.5%.

Renewable Companies

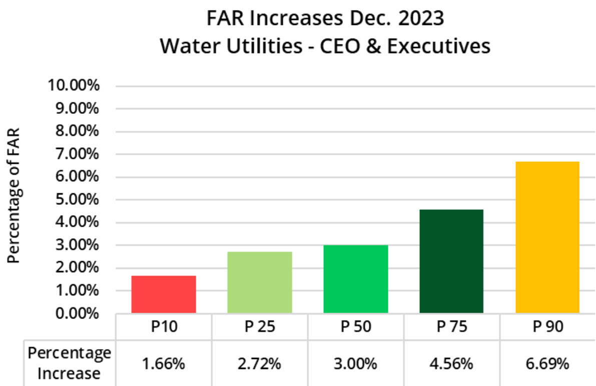
Renewable companies in the development phase face a quandary. Without significant cashflow, affordability is an issue. Many opt to load LTI plans so that the need to use financial resources for fixed remuneration is decreased. However, this strategy has limitations especially when competing with traditional utilities who havea strong cashflow.



Again we've seen significant increases at the upper end and a Median increase marginally above energy-based utilities.

Water Industry

Typically executive remuneration in water companies is regulated by state remuneration tribunals or is aligned to Executive Officer structures. Government ownership mandates a conservative approach when compared to private and listed utilities, and renewable companies. The following graph illustrates:



Water companies report a 3.0% increase at the Median with some anomaly adjustments accounting for upper end increases.

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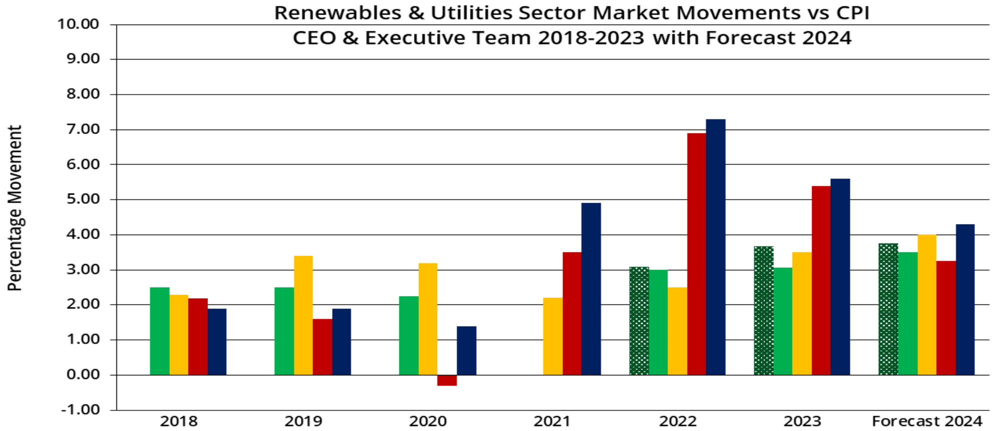
A Strategic View

An Overall Market Perspective

A historic perspective shows the recovery in FAR reviews in 2023 and this looks set to continue in 2024.



	2018	2019	2020	2021	2022	2023	Forecast 2024
Renewables Sector	No Data Available				3.09	3.68	3.75
Utilities Sector	2.50	2.50	2.25	0.00	3.00	3.07	3.50
AWOTE Australia	2.30	3.40	3.20	2.20	2.50	3.50	4.00
CPI Australia	2.18	1.60	-0.30	3.50	6.90	5.40	3.25
CPI NZ	1.90	1.90	1.40	4.90	7.30	5.60	4.30

Our forecasts of 3.5% to 3.75% may yet prove to be conservative if demand for capable executives continues at the current level.

Remuneration Committee - Use of External Advisors

In listed companies in Australia the role of external remuneration advisors is prescribed in the *Corporations Act 2001 Part 2D .8.* Essentially the Act requires:

- The external advisors be appointed by the board or remuneration committee.
- Any remuneration recommendations in relation to key management personnel (board, CEO and executives) must be made directly to the board or remuneration committee.
- The remuneration advisor must provide a declaration that any recommendation is free from the influence of any member of the key management personnel.

These requirements provide a sound basis for the engagement of external remuneration advisors and have been adopted by most non-listed utilities and renewable companies. The CEO and executive team have a conflict of interest when it comes to setting executive remuneration strategy and determining remuneration levels and review outcomes. The exception is that the CEO may make recommendations to the remuneration committee in relation to appointment levels and reviews for direct reports.

Remuneration Committee - Use of External Advisors (Continued)

People and culture specialists (including the GM People & Culture) may provide administrative support to the remuneration committee and external advisors but should not be involved in determining outcomes. This is the province of the remuneration committee which acts in accordance with its charter. All decisions must ultimately be approved by the board.

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.

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