

Executive Remuneration Policy

1 Introduction

This policy provides a framework for setting, reviewing, and designing the Company's executive remuneration arrangements.

In this policy "Executive" means the Company's Chief Executive (CE) and the CE's direct management reports, and from time to time any other senior employee as deemed appropriate.

2 Process

The People and Performance Committee:

- > reviews this policy and if changes are proposed, submits it to the Board for approval;
- > seeks external advice on remuneration matters as it deems appropriate;
- > makes recommendations to the Board in regard to the CE's contractual arrangements including remuneration; and
- > considers, and if appropriate, endorses the CE's recommendations on the total remuneration packages of each Executive.

3 Remuneration Philosophy and Principles

Consistent with Mercury's overarching remuneration philosophy of paying for performance, the total remuneration packages of Executives are designed to deliver upper quartile reward where performance is exceptional.

Remuneration Principles

- > Remuneration is aligned to long term sustainable shareholder value.
- > Remuneration for individuals will reflect level of performance and delivery of successful outcomes.
- > Simplicity over complexity will be reflected in the design.

4 Remuneration Elements

In addition to fixed remuneration (base salary + benefits), Mercury Executive packages may include:

- > short-term incentives (STIs) to reward the achievement of performance assessed on a balanced scorecard basis over the course of a financial year; and
- > long-term incentives (LTIs) to reward the achievement of performance measured over the longer term aligning Executive reward with shareholder returns.

At the Board's discretion, other fixed or variable reward elements may be introduced from time to time if a business case exists.

The Company's target package "remuneration mix" (proportion of each remuneration element) is determined with regard to market remuneration, taking into account the complexity of the business and industry together with the Company's pay for performance philosophy and risk profile. The intention is that the CE has a greater proportion of variable pay opportunity than other Executives, as the CE role has the greatest ability to influence Company performance and is more directly accountable for shareholder performance.

5 Remuneration Market

In assessing the market competitiveness of Executive packages, the primary "remuneration market (i.e. source of market remuneration data) against which Mercury Executive packages are benchmarked is the New Zealand private sector.



6 Market Positioning

6.1 Fixed Remuneration

Executive fixed remuneration should normally be within 85% to 115% (fixed pay range) of the market median/50th percentile of comparable positions within the New Zealand private sector market.

Individual capability and experience will determine where incumbents are positioned in this fixed remuneration pay range.

6.2 Short Term Incentives

STIs are set annually, aligned to the financial year, with a target amount set as a percentage of base salary. STIs may provide for reward below or above target STI amounts depending on performance. STI payments when earned are paid in cash following confirmation of the Company's financial results.

6.3 Long Term Incentives

The value of annual grants of LTIs will be set primarily with reference to the market median data and set as a percentage of base salary. The design of the LTI programme will be based on current market practice, with reference to appropriate performance criteria and vesting periods. The LTI programme extends to a small number of Level 3 managers, who are important to the business and have the potential to succeed into a general management role.

Additionally, in setting Target STI and LTI amounts the Committee will consider:

- > matters of internal relativity;
- > the reasonableness of the incumbent's overall target package.

7 Benchmarking Methodology

Each Executive role will be individually benchmarked against the Company's defined market.

The primary Executive benchmarking methodology is "hybrid job matching", i.e. the comparison of incumbent packages to the packages of roles in the market with broadly similar job content and scale (determined by factors such as revenue and equity value/market capitalisation).

The Committee will consider benchmark Executive remuneration data at least every two years with discretion applied if more frequent benchmarking is deemed appropriate.

