

IoD Code of Practice for Directors

- This Code provides guidance to directors to assist them in carrying out their duties and responsibilities in accordance with the highest professional standards.

1.0
Introduction

1.1 Boards of directors play a crucial role in enabling organisations to achieve their mission or purpose, whether that is to create wealth for shareholders or to deliver valued services to stakeholders.

1.2 The office of director carries with it a wide range of duties and obligations – ethical, legal and commercial. The 'tone at the top' influences the whole organisation. The guidance provided here is founded on high standards of professional and ethical behaviour.

1.3 This Code is not intended to be an exhaustive statement. It should be read in conjunction with applicable law, any relevant codes of governance such as The New Zealand Exchange Limited's (*NZX*) *Corporate Governance Code* and the provisions of the company's constitution. Directors should also refer to the Institute of Directors' *Four Pillars of Governance Best Practice* for detailed guidance on specific governance issues.

1.4 While this Code relates to companies and is based on values, principles and practices that have evolved over time in the corporate sector, much of it is relevant to organisational governance generally. However, directors should acquaint themselves with key points of legislative, constitutional and other difference for their particular organisations.

1.5 This Code may also be considered to be an appropriate guide for trustees in addition to their specific responsibilities under their particular trust deed and the provisions of the Trustee Act 1956.

1.6 By adhering to the values and principles set out in this Code, directors may increase general confidence in boards of directors. Adherence may also help avoid a greater degree of imposed regulation, and the consequent impact on the running of organisations.

1.7 The Code has been approved by the Council of the Institute of Directors (IoD) in accordance with the IoD's constitution. The IoD may amend the Code from time to time.

1.8 The Code applies to both executive and non-executive directors.

1.9 In accordance with the IoD's constitution, this Code is binding on all members. This means that in addition to complying with formal legal requirements mirrored in the Code, members must seek to adhere to the Code's values, principles and recommendations to the greatest possible extent in their roles as directors and in the companies and organisations they serve.

2.0
Framework and values

2.1 The governance of companies and other organisations is composed of a framework of interlocking *values, principles* and *practices* through which boards of directors exercise authority and make decisions in order to achieve the company's purpose.

2.2 Acting in the best interests of the company, the board of directors needs to balance its accountability to shareholders and responsibility to other stakeholders with the discretion it grants to management in the day-to-day running of the company.

2.3 The *values* guide the behaviour and performance of directors. They are: *Integrity, Enterprise, Fairness, Transparency, Accountability* and *Efficiency.*

2.4 *Integrity* means the honest recognition of duties to the company, its shareholders and other stakeholders by honestly observing high standards of ethical behaviour and abiding by all laws and regulations.

2.5 *Enterprise* means guiding the company towards achievement of its mission or purpose through strategic direction, monitoring and organisational alignment.

2.6 *Fairness* means the protection of shareholder rights generally, and specifically against fraud, insider dealing, conflicts of interest and the disadvantaging of minority shareholders by the majority.

2.7 *Transparency* entails the provision of accurate, timely, consistent and comparable financial and non-financial disclosure.

2.8 *Accountability* means, through independent oversight, making management answerable, and as directors being answerable to shareholders for the performance of the company.

2.9 *Efficiency* means adopting and advocating practices which produce desired outcomes at reasonable cost.

3.0 Principles and practice guidelines for Directors

The following *principles* are general standards covering major areas of board and company activity. The *practices* expand upon the values and principles and recommend approaches to issues that boards typically face, or should consider, in the execution of their duties.

3.1 Observe and foster high ethical standards

Leadership
The proper discharge of directors' duties requires ethical standards, over and above purely legal requirements.

By displaying and encouraging high ethical standards, directors positively influence the culture, behaviour and reputation of their companies.

Code of Conduct
Directors should encourage the adoption of a Code of Conduct as a foundation for ethical behaviour within the company. Directors and management should set an example in their adherence to the values set out in the Code.

Conflicts of Interest
Directors should avoid conflicts of interest so far as possible.

Where a conflict or potential conflict arises, at a minimum they must disclose it and adhere scrupulously to the procedures provided by law and by the constitution of the company for recording and dealing with conflicts and ensuring the company obtains fair value.

Directors who are conflicted regarding a particular issue should absent themselves from discussion and decision-making relating to that issue.

A director who has a continuing conflict of interest of a material nature, that cannot be satisfactorily resolved after consultation with the chair and audit committee, should consider resignation as a director; in particular where the material continuing conflict of interest prejudices their ability to contribute to the affairs of the board to the same extent as the other directors.

Buying and Selling of Securities
It is recommended that directors of public issuers ensure that their company has in place an approved procedure for the buying and selling of securities in the company by directors or their relatives or associates.

Directors should not engage in short-term trading in the company's securities.

Directors should notify the board in advance of any intended transaction by them or to the best of their knowledge their relatives or associates involving shares or securities in the company and comply with the approved procedure.

Confidentiality
Directors must observe the confidentiality of non-public information disclosed to them as directors and not disclose it to any other person without the authority of the board.

A director who is nominated by, or has a special allegiance to, a particular shareholder or group of shareholders or other stakeholders, may only disclose confidential information to the nominating shareholder or other stakeholder with the authority of the board and in compliance with any procedures prescribed by law or the constitution of the company.

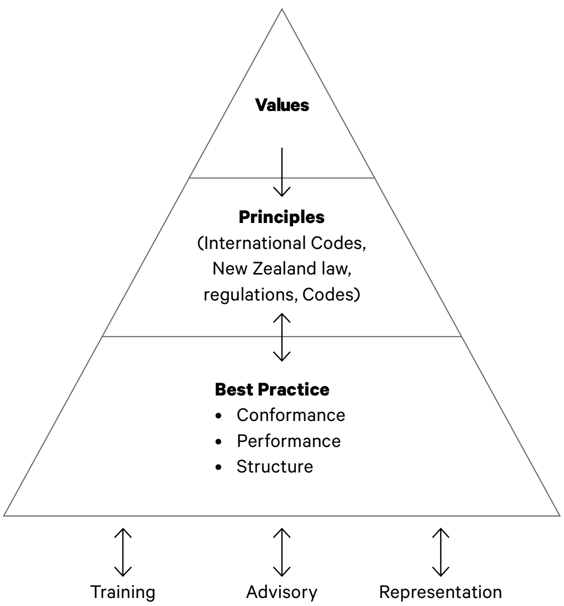
3.2 Act in good faith and generally in the best interests of the company

Company directors have a fiduciary duty to act in good faith and generally in what they believe to be the best interests of the company.

Directors have a duty of care, diligence and skill requiring them to be active and inquiring in the conduct of their duties.

Directors should consistently attend board meetings and devote sufficient time to make and keep themselves familiar with the nature of the company's business and the environments in which it operates.

Directors also have a duty not to act recklessly by permitting a company to carry on business in a way likely to result in substantial loss to creditors, or to incur an obligation unless the company can perform against it.



3.3 Comply with the spirit and letter of the law

Directors must exercise their powers for a proper purpose. They should understand the reasons powers have been conferred on them and limits within which those powers can be exercised.

They must be aware of and comply with the obligations imposed on them and their companies by applicable law, regulation and the company's constitution and ensure that all requirements are met both in form and substance.

Directors should also ensure general adherence by their companies to applicable codes, such as the *NZX Corporate Governance Code*. However, directors may adopt and disclose robust alternatives to specific code standards where good reasons exist.

3.4 Engage in the development, approval and monitoring of company strategy

In order to achieve their mission or purpose, companies must have clearly established long-term goals and well defined strategies for achieving those goals.

Directors should engage with management in the development of company strategy. While the extent of the board's involvement in strategy development will vary from company to company, at a minimum the board is responsible for approving and monitoring the company's strategic plan.

Goals and strategies should be regularly reviewed and reassessed as the company and its environment change.

3.5 Recognise and manage risk through identification, monitoring and control

Successful companies concern themselves only with risks they understand and that they can run profitably. Risks that are not understood, measurable or controllable are transferred, hedged or otherwise minimised. Risk management planning, which identifies, prioritises and determines the treatment of risks facing the company, aims both to protect and enhance value. A good risk management plan is therefore integral to company strategy.

As part of the system of risk management, directors should ensure the creation, implementation and maintenance of adequate systems of internal control within the company.

3.6 Structure the board for a balance of skills, knowledge and experience, to provide effective oversight and add value

Size

The size of the board will depend on the needs of each company, nature and maturity.

Competencies
A balanced board needs a broad mix of skills, knowledge and experience. Its members need to be able to think and contribute outside of their own areas of expertise and interact appropriately in order to reach collective decisions.

The board should therefore comprise those best able to contribute individually and collectively to the achievement of company goals, while ensuring the proper monitoring of company operations, reporting and compliance.

Its membership should possess a combination of business, strategic, analytical, and knowledge competencies, as well as appropriate ethical and personal qualities.

Continuing Development
Required knowledge competencies in particular will vary from company to company and change within companies over time. Boards should plan succession and engage in continuing professional development in order to continue to meet the needs of the company.

3.7 Encourage openness, challenge and independent thinking in board composition and decision-making

Chair
The chair should ensure that all directors are enabled and encouraged to play their full part in the affairs of the board and have adequate opportunities to express their views.

Non-Executive Directors Mix
The principal role of non-executive directors is to provide independent judgement and outside experience and objectivity, not subordinated to operational considerations, on all issues which come before the board.

The calibre and number of non-executive directors should be such that their views carry significant weight in the decisions of the board.

The mix of executive and non-executive directors will vary from company to company and depend on factors such as size and whether the company is listed or unlisted and closely-held or widely-held.

In the case of companies listed on stock exchanges and other companies with widely-held securities there should be a majority of non-executive directors and at least two independent non-executive directors.

Small and developing companies would benefit from having a non-executive director with suitable experience and skills.

Irrespective of directors' status as executive or non-executive, independent thinking and a willingness to challenge and be challenged should characterise directors' conduct in contributing to board decision-making.

Executive Directors
Executive directors have responsibilities additional to, and must retain a degree of independence from, their executive positions to enable them to carry out their responsibilities as directors effectively.

Executive directors must always be alert to the potential for conflicts between their management interests and their duties as directors.

3.8 Align director and employee remuneration and incentives with company strategy and performance

Directors
Payment in shares or share options may be considered for some proportion of the annual fee. Share ownership by directors can have the advantage of aligning remuneration with the interests of shareholders by increasing the focus of directors on company strategy, performance and share value over time. A formal policy on share ownership by directors should be established and fully disclosed to shareholders.

Employees
Well-structured incentive schemes help align employees' interests with company performance and shareholders' interests. Schemes involving performance bonuses or profit-sharing can assist in the growth of shareholder value by focussing employees on the achievement of key short-term individual and collective goals.

Long-term schemes typically involve the issue of shares or share options. Such schemes are generally more closely related to the achievement of long-term goals and sustainable growth in shareholder value.

Constraints
Directors' and employees' freedom to deal with such shares and options is subject to the obligations imposed by company law, ethics and disclosure requirements.

3.9 Ensure all shareholders and classes of shareholders are treated fairly according to their different rights

Directors should ensure fairness to all shareholders in disclosure of information, general communications and in any transaction potentially affecting the value of securities in the company.

Companies legislation sets down the rights and powers attaching to shares and other securities. Directors have the specific duty to resolve that the issue price of any new share issue is fair and reasonable both to the company and its existing shareholders.

3.10 Recognise and respect the legitimate interests of stakeholders

Strict adherence to the law and ethical values helps to ensure recognition and appropriate consideration of the interests of stakeholders, including employees, suppliers and others.

Active management of key stakeholder relationships is generally consistent with acting in the best interests of the company.

Directors should adopt policies governing the management of relationships with key stakeholders that are consistent with the nature of the company, its mission or purpose and the interests of its shareholders.

3.11 Foster constructive relationships with shareholders that encourage them to engage with the entity

Shareholder Meetings
Annual and other meetings should be held at times and locations that are convenient for the majority of shareholders. At meetings, shareholders should be given sufficient time to ask, through the chair, questions of the board, its management and auditors. The chair should enable the auditors to speak on any part of the business of the meeting that concerns them as auditors.

Online information
Publicly owned or large entities should maintain an up-to-date website providing online access to company reports, key corporate governance documents, shareholder notices, information releases and a description of the company's operations and goals.

3.12 Ensure the quality and independence of the internal and external audit processes

Audit Committees
Companies with widely-held securities should have an audit committee. Companies listed on the NZX are required to have an audit committee appointed by the board.

The audit committee ideally should comprise independent non-executive directors. In the absence of a compelling reason agreed to by the board to the contrary, the chair of the board should not be chair of the audit committee.

The audit committee should be formally constituted to ensure its relationship with the board is clear. It should have written terms of reference agreed by the board. Its duties should include the review of all financial statements to be released by the company, the regular review of compliance with internal systems and controls and the review of compliance with statutory and regulatory requirements. The committee should also review the independence and performance of external auditors.

Lines of Communication
There should be clear lines of communication between the audit committee and the external auditors. The audit committee should meet with the external auditors at least once a year and for at least part of that meeting no executive directors or other employees of the company should be present.

There should also be clear lines of communication between the chair of the audit committee and the head of any internal audit function.

3.13 Remunerate directors and management fairly and transparently

Directors
Remuneration for directors should be set at levels designed to attract, motivate and retain the best people available.

Although the Companies Act 1993 authorises fee-setting by directors under certain circumstances, it is better practice for the company's constitution to require that remuneration be approved by shareholders. Such approval is required for listed companies under the NZX Listing Rules.

Fees should be reviewed at least annually.

Management
Remuneration-setting procedures and criteria for senior executives should ensure adequate and defensible levels of salary and incentives, with a clear linkage both to market equivalents and company performance.

Disclosure
Requirements for the disclosure of director and management remuneration are enshrined in companies legislation.

A Remuneration Committee of the Board, comprising independent non-executive directors, is recommended. This should provide assurance to shareholders and other stakeholders that the company sets remuneration fairly and objectively. The company's remuneration policy should be disclosed in its annual report.

3.14 Recognise the appropriate division between board and management

Reserved Powers
Under the Companies Act 1993, the business and affairs of a company must be managed by, or under the direction or supervision of, the board of directors.

While board powers may be delegated to the CEO, there should be a formal schedule of matters delegated, and matters reserved for board decisions. Delegated powers may be withdrawn.

Division of Responsibilities
Subject to directors' ability to delegate responsibility there should be an agreed division of responsibilities at the head of the company to ensure a balance of power and authority in order that no one individual has unfettered powers of decision.

As a general rule the roles of the chair and managing director or chief executive officer should be kept separate and not held by one person at the same time.

The chair is the link between the board and the managing director or chief executive officer of the company. It is for the chair to maintain a proper balance between executive and non-executive views on the board.

Ordinarily, non-executive directors should not become involved in management issues or in managing the implementation of board policy.

3.15 Ensure a balanced agenda of structural, conformance and performance matters for board consideration

Chair
The chair is responsible for the efficient functioning of the board and sets the agenda for board meetings, usually in conjunction with the managing director or chief executive officer.

The chair has primary responsibility for ensuring that all directors receive sufficient and timely information to enable them to be effective board members.

Balance in Agendas
Agendas should be composed of an appropriately balanced set of structural, conformance and performance matters. This enables the board to deal with important compliance, administrative and short-term performance issues, while allocating sufficient time to consideration of the company's long-term future.

Structural matters include organisational form, behaviour, remuneration and performance planning and evaluation.

Conformance matters concern controls, reporting and compliance.

Performance matters relate to value-creation and achievement of the company's mission or purpose. They include the setting and monitoring of strategy, strategic risk management and the long-term attraction and allocation of human, physical and financial resources.

3.16 Monitor and control performance through accurate and timely internal and external reporting

Internal Reporting
Directors must ensure that appropriate reporting systems are in place and maintained to provide accurate and timely information to the board.

External Reporting
Directors are obliged under the Companies Act 1993 and Financial Reporting Act 2013 to keep accurate accounting records and to prepare financial statements. Directors of *reporting entities* and *issuers* must ensure

that the financial statements comply with generally accepted accounting practice.

The board should present to shareholders assessment of the company's performance and position. This will usually involve the provision of information additional to the minimum required by law.

Reports and financial statements need to be understood readily by shareholders. This means that a coherent narrative is necessary as well as figures.

3.17 Monitor and regularly evaluate board and management performance

Board
Systematic review of the performance of individual directors (including the chair) and of the board as a whole helps address weaknesses, increases skill levels and demonstrates a commitment to accountability. A formal review should take place annually, supplemented by informal evaluation between the chair and individual directors during the year.

Management
Evaluation of the CEO is a fundamental obligation of directors, given that they are responsible for the monitoring and oversight of management. Such evaluation is also crucial for the setting and achievement of company goals.

Evaluations should be based on the CEO's job description or contract, performance objectives set for each year and over the longer term and a range of qualitative factors such as leadership style, vision and integrity.

3.18 Encourage efficiency in board and company operations and in the company's operating environment

Operating Environment
Directors should take an active interest in legislative and other developments which affect their companies' ability to operate efficiently. Good voluntary practices which suit the circumstances of individual companies can reduce the imposition of regulation and the associated compliance costs.

Business Operations
One of the challenges facing organisations is the need for continuous improvement in products and services under increasing cost and price constraints. Directors should apply their skills and experience to encourage a disciplined and innovative approach to improving operational efficiency.

Compliance costs should be subject to the same discipline. Directors should encourage cost-effective compliance by their companies.

Board Operations and Committees
The board should take the lead through the efficient conduct of its own affairs. It should agree a work plan for each year, including meeting dates and agenda topics.

In appropriate circumstances, and depending on the size of the company and its board, committees other than audit committees may be appointed to assist with such issues as the remuneration and nomination of directors. Use of committees can promote efficient operation of the board by facilitating distribution of the board's workload and enabling more detailed consideration of matters by directors who have specific skills.

When a committee is established by the board, its terms of reference, powers, duties, reporting procedures, membership, remuneration and duration of office should be clearly recorded. Decision-making abilities of committees should be clearly defined. Generally, committee activities should result in recommendations for the approval of the full board.

Any non-executive director should be invited to attend meetings of any board committee should they so wish, whether appointed to that committee or not, provided the director is not excluded by reason of conflict of interest.

Definitions

In this Code: *Executive director* means a director who is also an employee of the company; *independent* means self-reliant, with objectivity unimpaired by other interests.

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