



## Corporate Governance Report 2020

### Introduction

The Board is committed to conducting business in the right way and maintaining the highest standards of corporate behaviour and accountability. The Board regularly reviews Rakon's corporate governance framework and supports best practice reporting.

In its 2019 Corporate Governance Report, the Board explained the extent to which the Rakon corporate governance framework met the recommendations of the NZX Corporate Governance Code 1 January 2019 ('NZX Code') and, where applicable provided an explanation of why a NZX Code recommendation had not been followed and the alternative practices followed in lieu of that recommendation. The Board indicated areas that would be a focus during the year ahead.

In this 2020 Corporate Governance Report, the Board again explains the extent to which the Rakon corporate governance framework meets the recommendations of the NZX Code and, where applicable provides an explanation of why a NZX Code recommendation has not been followed and the alternative practices followed in lieu of that recommendation and indicates areas that will be a focus during the year ahead.

The information in this Corporate Governance Report is current as at 24 June 2020 and has been approved by the Board.

The key corporate governance documents referred to in this report are available on Rakon's website at: <http://www.rakon.com/corporate/investor/ir-gov>

Rakon is listed on the NZX Main Board and is subject to regulatory control and monitoring by both the NZX and the Financial Markets Authority ('FMA').

### ***Principle 1 – Code of ethical behaviour***

***Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards being followed throughout the organisation.***

Rakon is committed to ensuring the highest ethical standards are maintained by its Directors, employees and suppliers, contractors and consultants to the Company in all activities conducted by or in the interests of the Company.

**Recommendation 1.1 The board should document minimum standards of ethical behaviour to which issuer's directors and employees are expected to adhere (a code of ethics).**

Ethical standards and guiding principles are set out in Rakon's Business Code of Conduct which is available on the Company's website and was last reviewed in May 2019. Additional guidance for Directors on the requirement to maintain high standards of honesty, integrity and ethical conduct is provided in the Board Charter which was last reviewed in June 2020 and which is available on the Company's website.

The Business Code of Conduct requires Directors and employees to promptly report material breaches of the Code. To support this expectation of disclosure of breaches of the Business Code of Conduct, as well as disclosure of other wrongdoing or suspected wrongdoing, the Board has developed a Protected Disclosure (whistle blowing) Policy which was approved by the Board in May 2019 and is available on the Company's website.

Rakon has processes in place to enable training for all new and existing employees to ensure awareness and understanding of the Business Code of Conduct and other Company policies. An Employee Handbook is regularly reviewed and updated and is available on an in-house portal along with all human resources and governance policies and procedures. Rakon carries out training sessions with managers and team leaders to ensure they are well equipped to guide and support their teams. Rakon continues to investigate new innovative and effective processes for promoting awareness and for receiving assurance of understanding and compliance.

**Recommendation 1.2 An issuer should have a financial product dealing policy which applies to directors and employees.**

Rakon has a Financial Product Trading Policy to mitigate the risk of insider trading in Rakon securities by Directors and employees. A copy of this is available on Rakon's website. This policy was last reviewed and updated by the Board in March 2019 and was then circulated to Directors and employees along with further guidance on the application of the policy and where it can be accessed on the internal portal. Additional trading restrictions apply to Restricted Persons as defined in the policy, including Directors and certain employees. Details of Directors' shareholdings as at 31 March 2020 are set out in the Shareholder Information section of the 2020 Annual Report.

***Principle 2 – Board composition and performance***

***To ensure an effective board, there should be a balance of independence, skills, knowledge, experience and perspectives.***

The Board has ultimate responsibility for the strategic direction of Rakon and oversight of the management of Rakon, with the aim of increasing shareholder value and ensuring the obligations of the Company are met.

**Recommendation 2.1 The board of an issuer should operate under a written charter which sets out the roles and responsibilities of the board. The board charter should clearly distinguish and disclose the respective roles and responsibilities of the board and management.**

The Board operates under a written charter which: sets out the structure of the Board and the procedures for the nomination, resignation and removal of Directors; outlines the respective responsibilities and roles of the Directors and management; and identifies procedures to ensure that the Board meets regularly, conducts its meetings in an efficient and effective manner and that each Director is fully empowered to perform his or her duties as a Director of the Company and to fully participate in meetings of the Board.

The day-to-day management and operation of Rakon is undertaken by the executive team members and their reports under the leadership of the Managing Director. Delegation of the day-to-day management and operation of Rakon is subject to financial controls and limitations delegated from time to time by the Managing Director as set out in detailed

Delegated Authorities Schedules. A delegation of authority policy has been developed to record the general and specific delegations of authority made to the Managing Director and the specific powers reserved to the Board.

In discharging their duties, Directors have direct access to and may rely upon Rakon's senior management and external advisers. Directors have the right, with the approval of the Chair or by resolution of the Board, to seek independent legal or financial advice at the expense of Rakon to assist them in the proper performance of their duties.

**Recommendation 2.2 Every issuer should have a procedure for the nomination and appointment of directors.**

While the appointment of new Directors is the responsibility of the whole board, the People Committee Charter outlines the Committee's particular duties and responsibilities in relation to the selection and appointment of new Directors and succession planning.

The People Committee is responsible for identifying and recommending candidates for the role of Director, taking into account such factors as it deems appropriate, including tenure, capability, skill sets, experience, diversity, qualifications, judgement and the ability to work with other Directors.

The Committee recognises a skills matrix is one of the tools that can assist with identifying and assessing existing Directors' skills and competencies and the new skills and competencies which may be needed to meet the Company's future governance requirements.

The number of elected Directors and the procedure for their appointment, retirement and re-election at annual meetings is set out in the Constitution of the Company and the NZX Listing Rules. Changes to the Rakon Constitution to ensure compliance with the NZX Listing Rules were approved by shareholders at the 2019 Annual Shareholders' Meeting.

All Directors, including any executive Director must retire by rotation and if eligible stand for re-election at the third annual meeting or three years after their last election, whichever is longer. Any Director appointed since the previous annual meeting must also retire and is eligible for election.

The Board supports the separation of the roles of Chair and Chief Executive Officer and the appointment of an independent Chair.

**Recommendation 2.3 An issuer should enter into written agreements with each newly appointed director establishing the terms of their appointment.**

The Board has determined that new Directors receive a letter of appointment to agree the key terms and conditions of their appointment or election as Directors of Rakon. Previously the Board relied on the general rules and practice including appointment, tenure, duties and responsibilities and requirements outlined in relevant legislation, the NZX Listing Rules, the Company's Constitution and the Board Charter as encompassing the key terms and conditions and expectations of Rakon Directors.

**Recommendation 2.4 Every issuer should disclose information about each director in its annual report or on its website, including a profile of experience, length of service, independence and ownership interest and director attendance at board meetings.**

Information about each Director of Rakon is available on the Rakon website and in the 2020 Annual Review, which is made available to shareholders on the Company's website at the same time as the 2020 Annual Report. The Company maintains an interests' register and particulars of the entries made in the interests' register during the year ended 31 March 2020 in relation to Directors' interests are disclosed in the Shareholder Information section of the 2020 Annual Report.

**Board meetings and attendance**

The Board meets as often as it deems appropriate including sessions to review the performance of the business against agreed plans and to consider the strategic direction of Rakon and Rakon's forward-looking business plans. Video and/or phone conferences are also used as required.

The table below sets out Directors' attendances at the Board, Audit and Risk Committee and the People Committee meetings during the year ended 31 March 2020. In total, there were twelve Board meetings, eight Audit and Risk Committee meetings and three People Committee meetings.

	<b>Board Meetings</b>	<b>Audit &amp; Risk Committee</b>	<b>People Committee</b>
<b>Total number of meetings held</b>	<b>12</b>	<b>8</b>	<b>3</b>
Bruce Irvine	12	6	3
Keith Oliver	10	-	3
Brent Robinson	12	-	-
Lorraine Witten	12	8	3
Roger Yao: Alternate Director appointment for Yin Tang Tseng <sup>1</sup>	12	-	-
Keith Watson	12	8	-

<sup>1</sup> Roger Yao was appointed as alternate Director by Yin Tang (Tony) Tseng, with the consent of the Board, in June 2017. He attends Rakon Board meetings and provides support for Tony who continues to be actively engaged in the activities of the Board. Tony is the current Chair of Siward Crystal Technology Co. Limited, a substantial shareholder (16.6%) in Rakon.

**Recommendation 2.5 An issuer should have a written diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving diversity (which, at a minimum, should address gender diversity) and to assess annually both the objectives and the progress in achieving them. The issuer should disclose the policy or a summary of it.**

Rakon has recognised the value of diversity of thinking and skills in its recruitment practices and its management and governance and has sought to create inclusive work environments where all of its people are valued and respected. Rakon recognises the term diversity means one or more of a number of different characteristics and factors including but not limited to gender, ethnic background, religion, age, marital status, culture, disability, economic background, education, language, physical appearance and sexual orientation. Rakon considers different backgrounds, communication styles, life-skills and interpersonal skills of Directors and employees are of value in building diverse teams.

Rakon's Diversity and Inclusion Policy was approved by the Board in May 2019 and is available on the Company's website. As required under that policy, Rakon has set objectives for measuring and promoting diversity and inclusion within the Company. Progress on these objectives is required to be monitored and assessed by the People Committee and the Board at least annually.

The Board set two key diversity and inclusion objectives for the year beginning 1 April 2019:

- Ensure effective processes to gather data recording gender and ethnicity across the whole of the company are in place and followed
- Target the provision of bias awareness training across all leadership teams.

Rakon has developed systems to support gathering data regarding gender and ethnicity in New Zealand and across the whole of the Rakon Group. Some of Rakon's locations do not allow compulsory data gathering for gender and ethnicity, but the information is recorded where people are comfortable to share it. With a good level of knowledge of the gender and ethnicity of its employees Rakon is better able to plan initiatives and programmes to foster and enhance personal and career development, health, safety and well-being and inclusiveness.

During the past 18 months, the Rakon People and Capability team has addressed bias awareness with leaders more regularly. There has been targeted training for bias awareness to introduce the concept, in context, with individual leaders both to support Rakon's policy of diversity and inclusiveness in the workplace and to make sure leaders are not hindered by unconscious bias when making decisions regarding hiring and promotions for their teams.

As at 31 March 2020, females represented 20% (FY19: 20%) of Rakon's Directors and Officers (as defined in NZX Listing Rule 3.8.1(c)). A quantitative breakdown of the number of male and female Directors and the number of male and female Officers as at 31 March 2020 and as at 31 March 2019 is set out in the table below. In that table the Chief Executive Officer who is the Managing Director is included as a Director, and Officers are the direct reports of the Chief Executive Officer having key functional responsibilities.

	31 March 2020	31 March 2020
<b>Directors</b>		
Females	1	1
Males	5	5
<b>Officers</b>		
Females	2	2
Males	7	7

**Recommendation 2.6 Directors should undertake appropriate training to remain current on how best to perform their duties as directors of an issuer.**

The Company encourages all Directors to undertake appropriate training and education to build on their governance and directorship skills. Appropriate training and education includes attending presentations on changes in governance, legal and regulatory frameworks; attending technical and professional development courses; and attending presentations from industry experts and key Rakon advisers. Updates are provided to the Board by management on relevant industry and Company issues. A number of Rakon's Directors are members of the Institute of Directors.

**Recommendation 2.7 The board should have a procedure to regularly assess director, board and committee performance.**

The Board regularly considers individual and collective performance, together with the skill sets, training and development and succession planning required to govern the business. A full evaluation of Board performance was undertaken during the year ended 31 March 2019. For the year ended 31 March 2020, the Chair engaged directly with each Director to discuss Board performance and evaluate individual performance referencing a Review and Evaluation plan developed for Rakon.

The charters of the Board's Committees also require the Committees to undertake a self-review process, including receiving feedback from the Board as a whole and reporting to the Board on the outcome of the reviews. For the year ended 31 March 2020, Review and Evaluation checklists prepared for each Committee were used for the review and evaluation exercise.

**Recommendation 2.8 A majority of the board should be independent directors.**

The Board currently comprises of six Directors: five non-executive Directors, four of whom are independent including the independent Chair, and one executive Director who is the Managing Director and Chief Executive Officer. In order for a Director to be independent, the Board has determined, among other things, he or she must not be an executive of Rakon and must have no disqualifying relationships. The Board provides guidance for determining independence in its Charter and follows the guidelines in the NZX Listing Rules.

The Board recognises that from time to time it is appropriate for the Board to confer without executive Directors or other senior management present and for there to be separate meetings of independent Directors.

**Recommendation 2.9 An issuer should have an independent chair of the board. If the chair is not independent then the chair and the CEO should be different people.**

The Chair of Rakon is an independent Director. While the Board Charter does not require the chair of the Board to be an independent Director, if the Directors appoint a fellow Director as Chair who is not independent then they are required to disclose this fact in the Company's annual report, along with reasons justifying such a decision. The Rakon Board Charter records the Board's intention that the Chair and the Managing Director or Chief Executive Officer shall not be the same person.

### ***Principle 3 – Committees***

***The Board should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibility.***

The Board has delegated a number of its responsibilities to committees to assist in the execution of the Board's responsibilities.

The current committees of the Board are the Audit and Risk Committee and the People Committee ('Committees').

The Committees review and analyse policies and strategies, which are within their terms of reference. They examine reports, information and proposals and, where appropriate, make recommendations to the full Board. Committees do not take action or make decisions on behalf of the Board unless specifically mandated by prior authorisation from the Board to do so.

The Committees meet as required and have terms of reference (charters), which are approved and reviewed by the Board. Copies of the Audit and Risk Committee Charter and the People Committee Charter are on the Rakon website and were last reviewed in March 2020.

All members of the Board receive the minutes of each Committee meeting and all Directors are entitled to attend any Committee meeting. In pursuing its duties and responsibilities, each Committee is empowered to seek any information it requires from employees and to obtain independent legal or other professional advice. Each Committee is required to report to the Board after each meeting of the Committee.

From time to time, special purpose committees may be formed to review and monitor specific projects with senior management.

**Recommendation 3.1 An issuer's audit committee should operate under a written charter. Membership on the committee should be majority independent and comprise solely of non-executive directors of the issuer. The chair of the audit committee should be an independent director and not the chair of the board.**

The Audit and Risk Committee's purpose and key objectives are to ensure oversight of all matters related to the financial accounting and reporting of the Company, monitoring the processes undertaken by external auditors and internal audit activity, operational risk management and compliance with all financial corporate governance requirements.



Its duties and responsibilities include:

- Reviewing the consolidated financial statements and making recommendations on financial and accounting policies.
- Reviewing the performance of the external auditor and recommending to the Board their appointment and removal if required.
- Overseeing the adequacy and effectiveness of internal controls and operational risk management including insurance.

The Audit and Risk Committee's Charter provides that the Committee must be comprised solely of Directors of Rakon, have a minimum of three members, have a majority of independent Directors and have at least one Director with an accounting or financial background. The current member composition of this Committee complies with these requirements.

Members of the Audit and Risk Committee as at the date of this report are Lorraine Witten (Chair), Bruce Irvine and Keith Watson. The Chair of the Audit and Risk Committee is not the Chair of the Board.

**Recommendation 3.2 Employees should only attend audit committee meetings at the invitation of the audit committee.**

Management may attend meetings at the invitation of the Audit and Risk Committee and the Committee routinely has committee member-only time with the external auditor without management present.

**Recommendation 3.3 An issuer should have a remuneration committee which operates under a written charter (unless this is carried out by the whole board). At least a majority of the remuneration committee should be independent directors. Management should only attend committee meetings at the invitation of the remuneration committee.**

The Board has combined the duties and responsibilities of a remuneration committee and a nomination committee under one committee known as the People Committee, as reflected in the People Committee's charter. This charter records the combined responsibilities and was last reviewed in March 2020. The People Committee's work plan reflects duties and responsibilities that would otherwise be covered by separate remuneration and nomination committees.

The People Committee's purpose and key objective is to assist the Board in establishing coherent human resources, remuneration and Director nomination policies and practices. Its duties and responsibilities include:

- Overseeing, reviewing and making recommendations to the Board in relation to human resources strategy, management succession planning, employee incentive schemes, remuneration arrangements for the Managing Director and senior management and Directors and compliance with applicable human resources legislation; and
- Overseeing, reviewing and making recommendations to the Board in relation to the selection and appointment of new Directors, processes for identifying and assessing skills and competencies, Director succession planning and effective induction and



training programmes for new and existing Directors in order that the Board is comprised of Directors who contribute to the successful management of the Rakon Group.

The People Committee Charter requires that a majority of its membership shall be independent Directors and that the Chair shall be independent. Currently, the Chair and all other members of the Committee are independent Directors.

Members of the People Committee as at the date of this report are Keith Oliver (Chair), Bruce Irvine, and Lorraine Witten. Management may attend meetings at the invitation of the Committee.

**Recommendation 3.4 An issuer should establish a nomination committee to recommend director appointments (unless this is carried out by the whole board), which should operate under a written charter. At least a majority of the nomination committee should be independent directors.**

As reported in respect of Recommendation 3.3 the Board has combined the responsibilities of a remuneration committee and a nomination committee into one People Committee. This approach is sensible from an administrative and resourcing perspective and facilitates regular oversight of both remuneration and nomination matters through the year.

**Recommendation 3.5 An issuer should consider whether it is appropriate to have any other board committees. All committees should operate under written charters. An issuer should identify the members of each of its committees and periodically report member attendance.**

The Board Charter specifically requires the Board to assess regularly whether there is a need for any further standing committees and the Board acknowledges that any committee established should operate under a written charter. The charters of the Audit and Risk Committee and the People Committee are available on the Rakon website and their members are identified on the Rakon website and in the Company's annual reports along with a record of their attendance at the Committees' meetings.

Currently Rakon health and safety matters are the responsibility of the full Board with oversight of legislative compliance and policy by the People Committee.

The independent Directors meet as a committee from time to time as required.

**Recommendation 3.6 The board should establish appropriate protocols that set out the procedure to be followed if there is a takeover offer for the issuers including any communications between insiders and the bidder. The board should disclose the scope of independent advisory reports to shareholders. These protocols should include the option of establishing an independent takeover committee, and the likely composition and implementation of an independent takeover committee.**

Rakon has not developed a specific policy governing the Board's response to a takeover situation. Current legal advice on process that should be followed in the event of a takeover offer is readily accessible by Directors in their online Resource Centre. In the case of a takeover offer, Rakon will form an Independent Takeover Committee to oversee disclosure and response, and engage expert legal and financial advisers to provide advice on procedure.

#### ***Principle 4 – Reporting and disclosure***

***The Board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosures.***

Rakon's Directors are committed to keeping investors and the market informed of all material information about the Company and its performance, in a timely manner.

#### **Recommendation 4.1 An issuer's board should have a continuous disclosure policy.**

Rakon has a Continuous Disclosure Policy to ensure that material information is identified, reported, assessed and disclosed promptly and without delay to the market. This policy was reviewed and updated by the Board in March 2019 and circulated to Directors and employees along with further guidance on the application of the policy. The Rakon Continuous Disclosure Policy and additional guidance is accessible to all staff on an internal online portal.

In addition to all information required by law, Rakon also seeks to provide sufficient meaningful information to ensure stakeholders and investors are well-informed, including financial and non-financial information.

#### **Recommendation 4.2 An issuer should make its code of ethics, board and committee charters and the policies recommended in the NZX Code, together with any other key governance documents available on its website.**

The key corporate governance documents referred to in this Corporate Governance Report are available on Rakon's website: <http://www.rakon.com/corporate/investor/ir-gov>

#### **Recommendation 4.3 Financial reporting should be balanced, clear and objective. An issuer should provide non-financial disclosure at least annually, including considering environmental, economic and social sustainability factors and practices. It should explain how operational or non-financial targets are measured. Non-financial reporting should be informative, include forward looking assessments, and align with key strategies and metrics monitored by the board.**

#### **Financial information**

Rakon's business management teams are responsible for implementing and maintaining appropriate accounting and financial reporting principles, policies and internal controls designed to ensure compliance with accounting standards and applicable laws and regulations.

The Board's Audit and Risk Committee oversees the quality and integrity of external financial reporting, including the accuracy, completeness, clarity, balance and timeliness of financial statements. It reviews Rakon's full and half-year financial statements and makes recommendations to the Board concerning accounting policies, areas of judgement, compliance with accounting standards, stock exchange and legal requirements, and the results of the external audit. All matters required to be addressed, and for which the Committee has responsibility, were addressed during the reporting period.

For the financial year ended 31 March 2020, the Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and facilitate the compliance of the financial statements with the Financial Markets Conduct Act 2013. The Chief Executive Officer and Chief Financial

Officers have confirmed in writing to the Board that Rakon's external financial reports present a true and fair view of the Company's financial position in all material aspects.

Rakon's full and half-year financial statements are available on the Company's website.

### **Non-financial information**

Rakon discusses its strategic objectives and its progress towards achieving these in the Chair and Chief Executive Officer's commentary in its reports to shareholders.

Rakon is committed to ensuring the protection of the world's environment and natural resources. As part of this commitment, Rakon has achieved ISO14001 certification at the following sites: Auckland – New Zealand and Bangalore – India.

Across its global facilities, Rakon is integrating an Environmental Management System (EMS) to deliver continuous improvement in this area.

Details of Rakon's commitment to the environment and human rights can be viewed on the Company's website: <http://www.rakon.com/corporate/about/corp-policies>. This includes the Company's policy on the restriction of hazardous substances (RoHS/RoHS2); and Rakon's positions on Conflict Minerals and Slavery and Human Trafficking.

The Company also invests in a number of social responsibility initiatives that support employees and the communities in all the regions in which it operates.

To date Rakon has not sought to adopt a specific reporting framework for ESG policies and practices. Rakon nevertheless continues to focus on continuous improvement of its ESG practices and may consider more structured reporting in the future supported by targets and metrics.

### ***Principle 5 – Remuneration***

***The remuneration of directors and executives should be transparent, fair and reasonable.***

Oversight of policy and processes in relation to the remuneration of Directors and executives is a key responsibility of the People Committee.

**Recommendation 5.1 An issuer should recommend director remuneration to shareholders for approval in a transparent manner. Actual director remuneration should be clearly disclosed in the issuer's annual report.**

The total remuneration available for Directors is approved by shareholders. The Board determines the level of remuneration paid to Directors from the approved collective pool. Directors also receive reimbursement for reasonable travelling, accommodation and other expenses incurred in the course of performing their duties.

The annual fee pool limit is \$360,000 and was approved by shareholders at the 2012 Annual Shareholders' Meeting.

Any proposed increases in non-executive Directors' fees and remuneration will be put to shareholders for approval.

If independent advice is sought by the Board, the consultants will be required to declare their independence. If the Board elects to state publicly that it is relying on such advice in respect of its remuneration proposal, a summary of the findings will be disclosed to shareholders as part of the approval process.

Effective from 1 April 2020 to 30 June 2020, Rakon Directors elected to reduce their fees by 50% due to the uncertainties facing the business as a result of the global Covid-19 pandemic and the impact of actions taken by governments across the world to control the pandemic.

**Recommendation 5.2 An issuer should have a remuneration policy for remuneration of directors and officers which outlines the relative weightings of remuneration components and relevant performance criteria.**

The Board has a Remuneration (Directors and Executives) Policy which was approved by the Board in May 2019. This policy recognises that investors have a particular interest in director and executive remuneration and that the remuneration of directors and executives should be transparent, fair and reasonable. The policy outlines the framework within which Rakon determines remuneration for its Directors and executives.

Rakon applies a fair and equitable approach to remuneration having regard to the financial position of the Company and the external environment.

The Remuneration (Directors and Executives) Policy records that Rakon and its People Committee may obtain independent advice and relevant market data and benchmarking in New Zealand and other regions in which it operates from appropriately qualified consultants to assist in setting remuneration for its executives, Chief Executive and Directors. External advice is sought on a regular basis to ensure remuneration is benchmarked to the market.

**Director remuneration**

Board role	Approved remuneration
Chair	\$120,000
Non-executive Director	\$60,000

Details of individual Directors' remuneration are set out in the Shareholder Information section of the 2020 Annual Report.

**Executive remuneration**

In general, executive remuneration comprises of a fixed base salary and an at risk short-term incentive (STI) payable annually. Some executives also receive fringe benefits. At-risk incentives, including any STI, are payable at the Board's discretion and by reference to targets set at the commencement of the period, which are generally based on financial measures including Company earnings targets, progress against objectives related to the strategic plan and business unit objectives and other personal objectives.

**Recommendation 5.3** An issuer should disclose the remuneration arrangements in place for the CEO in its annual report. This should include disclosure of the base salary, short-term incentives and long-term incentives and the performance criteria used to determine performance based payments.

#### CEO remuneration

The review and approval of the Chief Executive Officer's remuneration is the responsibility of the People Committee and the Board.

External advice is sought on the remuneration of the Chief Executive Officer and was last obtained in 2018.

The Chief Executive Officer's remuneration comprises a fixed base salary, fringe benefits, and an at-risk STI. At-risk incentives are payable at the Board's discretion and by reference to targets agreed with the Chief Executive Officer based on financial measures including earnings targets, progress against objectives related to the strategic plan and other personal objectives. The remuneration detailed below relates to payments made to Brent Robinson in the year ended 31 March 2020 (FY2020) (excluding any STI payments earned and to be paid in the 2020 financial year). The breakdown of the Chief Executive Officer's STI for FY2020 is 30% of Base Salary with performance measures linked 50% to achievement of certain Company performance targets and linked 50% to achievement of certain personal objectives. The same breakdown was applicable to the Chief Executive Officer's STI for the year ended 31 March 2019 (FY2019).

	Base Salary	Benefits	Subtotal	At Risk Incentive		Total Remuneration
				STI	% STI achieved against maximum	
FY2020	\$637,500	\$34,456	\$671,956	\$165,376	86%	\$837,332
FY2019	\$634,139	\$34,064	\$668,202	\$147,000	77 %	\$815,202

#### **Principle 6 – Risk management**

***Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks.***

The Board has overall responsibility for the Company's system of risk management and internal control.

**Recommendation 6.1** An issuer should have a risk management framework for its business and the issuer's board should receive and review regular reports. An issuer should report the material risks facing the business and how these are being managed.

The Board delegates day-to-day management of risk to the Chief Executive Officer. The Audit and Risk Committee provides additional and more specialised oversight of the

Company's risks to support the Board's oversight. As recorded in the Audit and Risk Committee's Charter the Board delegates specific responsibilities to the Committee in regards to risk assurance. The Committee's work plan and meeting schedule provide dedicated time for review of the Company's risk management framework, financial risks, operational risk registers and review of the Company's risk appetite. The Committee is required to report its findings to the full Board. The Board maintains a strategic risks register for review and updating as required at each meeting.

In the year ended 31 March 2020, management engaged with the Audit and Risk Committee to further document Rakon's risk management framework and policy. Managers are required to regularly review the key risks in their areas of responsibility and to assess, rate, control, mitigate or monitor such risks. Key risks are required to be reviewed by the executive team to assess whether appropriate risk management actions are being taken and the key risks are presented to the Audit and Risk Committee and Board for further oversight.

Each half year the Chief Financial Officer reports to the Audit and Risk Committee about the management of risks including but not limited to fraud, cyber security and business continuity and related risk management, including insurances.

Rakon maintains insurance policies that it considers adequate to meet its insurable risks.

Details of Rakon's financial risk management are available in section 26 of the Notes to the Financial Statements in the 2020 Annual Report.

**Recommendation 6.2 An issuer should disclose how it manages its health and safety risks and should report on its health and safety risks, performance and management.**

Health and safety matters are the responsibility of the full Board with oversight of legislative compliance and policy review by the People Committee.

The Rakon board recognises that effective management of health and safety is essential for the operation of a successful business, and its intent is to prevent harm and promote wellbeing for employees, contractors and customers. The Board is responsible for governance and oversight of the Company's health and safety framework. The Board is responsible for ensuring that the systems used to identify and manage health and safety risks, foster an effective health and safety culture, set clear expectations, are fit for purpose, and are effectively implemented, properly resourced, regularly reviewed and continuously improved.

Rakon has a number of operational subsidiary businesses outside New Zealand in India, France and the United Kingdom, each of which is responsible for managing its own health and safety framework. Each business prepares monthly reports which are submitted to Rakon's General Manager People & Capability, with a monthly report to the Board, providing up-to-date information on key performance indicators, activities and key events. The Board receives reports of Incident Rates including Lost Time Incidents and Near Misses, analysis of each reported incident, schedules recording the timing and performance of drills, training and audits and the Company's Critical Risk Register. The Board is satisfied that there is a comprehensive health and safety framework in place.

The Company's Lost Time Injuries recorded in its New Zealand operations in the year to 31 March 2020 numbered two (FY 2019: three)

Rakon is continuing its process of reviewing its health and safety policy and practices to achieve consistency of behaviour, processes and expectations across its global businesses.

### ***Principle 7 – Auditors***

#### ***The board should ensure the quality and independence of the external audit process.***

The Board is committed to ensuring audit independence, both in fact and appearance, in order that Rakon's external financial reporting is viewed as being highly objective and without bias.

#### **Recommendation 7.1 The board should establish a framework for the issuer's relationship with its external auditors.**

The Audit and Risk Committee reviews the quality and cost of the audit undertaken by the Company's external auditor and provides a formal channel of communication between the Board, senior management and external auditor.

As outlined in the Audit and Risk Committee Charter the Committee regularly meets with the external auditor to approve the terms of engagement, audit partner rotation (at least every five years) and audit fee, and to review and provide feedback in respect of the annual audit plan. A comprehensive review and formal assessment of the independence and effectiveness of the external auditor is undertaken periodically. The Committee routinely allows time to meet with the external auditor without management present. The Audit and Risk Committee also assesses the auditor's independence on an annual basis.

For the financial year ended 31 March 2020, PricewaterhouseCoopers (PwC) was the external auditor for Rakon.

All audit work at Rakon is fully separated from non-audit services, to ensure that appropriate independence is maintained. Other services provided by PwC in FY2020 were non-audit related and involved the provision of advice. These services were deemed to have no effect on the independence or objectivity of the auditor in relation to audit work. The fees paid to PwC for audit and non-audit work are identified at section 6 in the Notes to the Financial Statements in the 2020 Annual Report.

The Audit and Risk Committee reviewed Rakon's External Auditor Independence Policy in the year ended 31 March 2020 and the revised version will be presented to the Board for adoption in FY2021. The policy provides comprehensive and current guidance to Directors and management to assist them in determining the services that may or may not be performed by the external auditor.

PwC has provided the Audit and Risk Committee with written confirmation that, in their view, they were able to operate independently during FY2020.

#### **Recommendation 7.2 The external auditor should attend the issuer's annual meeting to answer questions from shareholders in relation to audit.**

The audit partner of the Company's external auditor, PwC, is asked to attend the Company's annual meetings, and to be available to answer questions from shareholders at those meetings. The PwC audit partner attended Rakon's 2019 Annual Shareholders' Meeting.



**Recommendation 7.3 Internal audit functions should be disclosed.**

Rakon has a number of internal controls overseen by the Audit and Risk Committee and/or the Board which are supported by policy, processes and procedures and regular reporting. These include controls for computerised information and management systems, cyber risk and information security, business continuity management, insurance, health and safety, conflicts of interest, prevention and identification of fraud and legislative compliance. The Company does not have an internal audit function. From time to time, the Company engages external audit services to review its systems and internal controls. To maintain its ISO accreditation for a number of its management systems Rakon is subject to regular independent audits.

***Principle 8 – Shareholder rights and relations***

***The board should respect the rights of shareholders and foster constructive relationships with shareholders that encourage them to engage with the issuer.***

The Board is committed to open and regular dialogue and engagement with shareholders. Rakon seeks to ensure that investors understand its activities by communicating effectively with them and giving them access to clear and balanced information. The Board regularly reviews its shareholders communications strategy.

As a matter of good governance practice and in light of feedback from some of its shareholders, the Board is undertaking a review of Rakon's shareholder communications and investor relations strategies.

**Recommendation 8.1 Issuers should have a website where investors and interested stakeholders can access financial and operational information and key corporate governance information.**

Rakon maintains a website [www.rakon.com](http://www.rakon.com) where shareholders and other stakeholders may obtain up-to-date financial and operational information and key governance information along with other information about the Company and its products.

The Company's annual Corporate Governance Reports are available on the Company's website in the relevant annual report and as a separate document including any updated versions of the Corporate Governance Report issued after the publication of the relevant annual report.

**Recommendation 8.2 An issuer should allow investors the ability to easily communicate with the issuer, including providing the option to receive communications from the issuer electronically.**

Rakon has a calendar of communications and events for shareholders, including but not limited to:

- Annual and interim reports.
- Annual and interim results announcements.
- Annual and interim investor presentations.
- Annual meetings.
- Ad hoc investor presentations to institutional investors and retail brokers.

- Easy access to information through the Rakon website [www.rakon.com](http://www.rakon.com)
- Access to management and the Board via a dedicated email address [investors@rakon.com](mailto:investors@rakon.com)

Shareholders are actively encouraged to attend the Company's annual meetings and vote on major decisions which affect Rakon. Voting is by poll, upholding the 'one share, one vote' philosophy. Shareholders may raise matters for discussion at these events.

All shareholders have the option to elect to receive electronic communications from the Company.

In addition to shareholders, Rakon has a wide range of stakeholders and maintains open channels of communication for all audiences, including brokers, the investing community and the New Zealand Shareholders' Association and regulators, as well as Rakon employees, customers and suppliers.

**Recommendation 8.3 Quoted equity security holders should have the right to vote on major decisions which may change the nature of the issuer in which they are invested.**

In accordance with the Companies Act 1993, Rakon's Constitution and the NZX Listing Rules, Rakon refers major decisions, which may change the nature of Rakon to shareholders for approval.

**Recommendation 8.4 If seeking additional equity capital, issuers of quoted securities should offer further equity securities to existing security holders of the same class on a pro rata basis, and no less favourable terms before further equity securities are offered to other investors.**

The Board notes the NZX Code recommendation in relation to considering the interests of all existing financial product holders. The Board will take account of the recommendation in the event of a capital raise as well as the expectation that it should explain why any capital raising method other than pro-rata was preferred when reporting against the NZX Code.

Date of last Review	June 2020
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