

# CORPORATE GOVERNANCE

AT VECTOR



**BOARD OF DIRECTORS  
AS AT 30 JUNE 2004**

**DR MARGO BUCHANAN-OLIVER**  
MA (Hons), PhD,

is Co-Director of The University of Auckland Centre of Digital Enterprise, Deputy Chair of The Meteorological Service of New Zealand Limited and a Trustee of Enterprise Waitakere and the HOPE Foundation.

Margo resigned from the Vector board in August 2004.

**BRYAN LEYLAND**  
MSc, FIEE, FIMechE, FIPENZ,

started his professional career as a cadet engineer with the Auckland Electric Power Board in 1956. He is an electrical and mechanical engineering consultant with wide experience in the electricity industry in New Zealand and overseas. Since 1992 he has been responsible for bi-annual reviews of electricity supply and demand in New Zealand. He is a well-known commentator on matters affecting electricity supply in New Zealand.



**DONALD MCLAREN**  
ONZM,

is Chairman of Bomac Laboratories Limited and related companies, former Chairman of NZ Thoroughbred Marketing Limited, a laureate of the New Zealand Business Hall of Fame and former President of the Auckland Racing Club.



**BRIAN PLIMMER**  
FCCM, FINSTD, AIINZ, AAI,

is a chartered secretary and accountant, General Manager and founder of Rural Couriers Society Limited, a former director of Countrywide Bank, a former member of the Major Users Monopoly Services Group, former President of the New Zealand Chartered Institute of Secretaries and former President of the Canada-New Zealand Business Association.



**MICHAEL STIASNY**  
Chairman, CA, BCom, LLB

is a chartered accountant and Senior Partner of Ferrier Hodgson & Co in Auckland. He has significant experience in insolvency, investigating accountant work, company restructuring and due diligence. He is currently Chairman of Metrowater Limited, and a director of a number of public and private companies, including Metlifecare, The Horticulture & Food Research Institute of New Zealand Limited and Waratah Receivables Corporation NZ Limited.

# MAINTAINING HIGH STANDARDS OF GOVERNANCE

## Vector's approach to Corporate Governance

Vector's board of directors is committed to maintaining the highest standards of corporate governance. To this end, it undertook a comprehensive review of its governance practices in 03/04, and developed a new corporate governance framework.

The board believes that good governance is based on a set of principles and behaviours that provide a clear basis for the company's everyday activities to ensure transparency, fairness and recognition of the interests of Vector's stakeholders.

Vector's corporate governance framework was developed taking into consideration contemporary best practice standards in New Zealand and Australia, including:

- Corporate Governance Principles and Guidelines issued in February 2004 by the Securities Commission of New Zealand (SCNZ);
- Corporate Governance Best Practice Code ("the code") issued in October 2003 by the New Zealand Stock Exchange (NZX);
- Principles of Good Corporate Governance and Best Practice Recommendations issued in March 2003 by the Australian Stock Exchange (ASX).

The board can confirm that its new corporate governance framework complies with the vast majority of standards set by all of the above. The few instances where there are differences are explained in the body of this statement.

The key corporate governance documents are available on Vector's website at:

[www.vectornetworks.co.nz](http://www.vectornetworks.co.nz).

### The board of directors

Vector's board is appointed by the company's sole shareholder, the Auckland Energy Consumer Trust (AECT). The board has statutory responsibility for the affairs and activities of Vector, which in practice is achieved through delegation to the Chief Executive Officer and management of Vector.

As far as practicable, Vector's board is established and run in accordance with the guidelines set out in the New Zealand Institute of Directors' Code of Proper Practice for directors, and having regard to the Institute of Directors' Best Practice Statements.

### Role and responsibilities

The board has formalised its roles and responsibilities in a board charter. The charter clearly defines matters that are reserved for the board, and those that the board has delegated to management.

The board is responsible for:

- Charting the direction, strategies and financial objectives of Vector and monitoring the implementation of those policies, strategies and financial objectives;
- Monitoring compliance with regulatory requirements and ethical standards;
- Appointing and reviewing the performance of the Chief Executive Officer; and
- Protecting and enhancing the value of the assets of Vector in the interests of Vector and its shareholder.

Vector's Chief Executive Officer and management are responsible for:

- Developing and implementing company strategies and making recommendations on specific strategic initiatives;
- Management and implementation of the risk management strategy set out by the board;
- Formulation and implementation of policies and reporting procedures for management; and
- Implementation of the delegated financial authority policy.

Powers specifically reserved for the board are:

- Appointment of the Chief Executive Officer and determination of his or her terms and conditions (including remuneration);
- Any matters in excess of discretions that it may have from time to time delegated to the Chief Executive Officer and management in relation to transactions, market risk limits and expenditure;
- Approvals of:
  - > The budget and business plan, at least annually;
  - > The acquisition, establishment, disposal and cessation of any significant businesses of Vector<sup>1</sup>;
  - > The issue of any securities in Vector; and
- Review of Vector's performance against strategic objectives.

### **Composition**

The size and composition of the board is subject to the limits imposed by Vector's constitution. The constitution requires the board to comprise between five and nine directors, of which two must be ordinarily resident in New Zealand.

1. Which also requires shareholder approval in certain circumstances.

As at 30 June 2004 there were five directors on the board, all of whom are independent.

The AECT selects and appoints directors by ordinary resolution. At least one-third of all directors are required to retire at each annual meeting. These will be either those directors wishing to retire or those who have been longest in office since their last election. There is no maximum term for which a person can remain a director.

An independent director is one who has no relationship with Vector (either directly, through associated persons or as a partner, shareholder or executive officer of an organisation that has a material relationship with Vector) that could compromise his or her ability to exercise unfettered judgment. Only independent directors are eligible to be board chairperson.

### **Information and advice**

All directors are expected to continuously inform and educate themselves to ensure that they can appropriately and effectively perform their duties.

A director is entitled to seek independent advice at company expense if he or she perceives an irregularity in a company-related matter. The Chairman must be advised

beforehand, and the advice must be made available to the rest of the board.

### **Accountabilities**

Directors minimise the possibility of conflict of interest in their involvement with Vector by restricting their involvement in businesses that could lead to a conflict of interest. Where conflicts do exist, the nature of their interest is disclosed to fellow directors and, where appropriate, directors excuse themselves from discussions in respect of those interests, and do not exercise their right to vote in relevant matters.

Directors are subject to limitations in their ability to buy and sell Vector securities by Vector's insider trading policies and the Securities Market Act 1998. All changes in the capital bonds holdings of directors are reported to the board and the NZX.

### **Board performance**

The board reviews its performance and the performance of each director annually with the assistance of professional advisers.

### **Board committees**

There are currently three board committees which have been set up to assist in the execution of the board's responsibilities, each

of which is subject to a defined charter. The three board committees are:

- Audit committee
- Risk management committee
- Remuneration committee

The board has not appointed a nomination committee as the AECT, Vector's sole shareholder, undertakes the selection of directors in consultation with the board.

#### Committee membership and responsibilities

The board committees review and analyse company policies and strategy, usually developed by management within their terms of reference. They also examine proposals, and where appropriate, make recommendations to the full board. Committees do not take actions or make decisions on behalf of the board unless specifically mandated beforehand by the board to do so.

Committee members and chairpersons are appointed by the board. Directors may attend any meeting of a board committee.

#### Committee attendance

Attendance records of board and committee meetings are provided in the table on this page.

#### Audit Committee

The audit committee comprises at least three directors, each of whom is a non-executive and the majority of whom are independent. Brian Plimmer chairs the audit committee. Given the recent resignation of the former chairperson of the audit committee, the board has elected that all directors be appointed to the audit committee until board vacancies are filled. The chairperson must be an independent director who is not the chairperson of the board. The committee extends a standing invitation to the Chief Executive Officer and Chief Financial Officer where appropriate.

At least one member of the committee must have an "adequate" accounting or financial background which requires the following:

- Membership of the Institute of Chartered Accountants of New Zealand; or
- Has held a chief financial officer position with a listed company for more than 24 months; or
- Has successfully completed a NZX approved course for audit committee membership; or
- Has experience and/or qualifications deemed satisfactory by the board.

Of the current audit committee, Brian Plimmer and Michael Stiassny both meet this criteria.

The terms of reference for the audit committee are defined in the audit committee charter. In summary, the committee is responsible for:

COMMITTEE ATTENDANCE 12 MONTHS TO 30 JUNE 2004	FULL BOARD	AUDIT COMMITTEE	RISK COMMITTEE	REMUNERATION COMMITTEE
<b>TOTAL MEETINGS</b>	<b>13</b>	<b>3</b>	<b>5</b>	<b>2</b>
MICHAEL STIASSNY	13	3	4	2
WAYNE BOYD <sup>2</sup>	12	3	–	2
DR MARGO BUCHANAN-OLIVER <sup>3</sup>	11	1	5	–
JOHN COLLINGE <sup>4</sup>	11	2	3	2
BRYAN LEYLAND	11	1	4	–
DON MCLAREN	13	2	4	2
BRIAN PLIMMER	13	3	5	–

2. Resigned 8 June 2004

3. Resigned 24 August 2004

4. Removed 23 June 2004

- Assisting the board in performing its oversight responsibilities in relation to financial reporting and regulatory compliance;
- Reviewing financial reporting processes, internal controls, the audit process and the company's process for monitoring legal and regulatory compliance; and
- Reviewing treasury risk management controls.

The committee also acts as a forum for communication between the board and senior financial management staff and internal and external auditors where appropriate. The committee meets with external and internal auditors at least once a year, and for at least part of that meeting no executive directors or company employees are present.

#### **APPOINTMENT OF AUDITORS**

The committee considers and recommends to the board the appointment of external and internal auditors. This includes considering the independence of external and internal auditors (including reviewing the range of services provided by the auditors in the context of all consulting services bought by the company). While rotation of audit firms is not required, the committee shall ensure that the same audit partner does not lead

the company's audit for more than five consecutive years.

#### **Management of Risk Committee**

The risk committee comprises at least three directors and a standing invitation exists for attendance to the chairperson of the executive risk management committee (ERMC). Bryan Leyland, Don McLaren and Michael Stiassny are currently members of the risk committee, which, at balance date, was chaired by Margo Buchanan-Oliver.

The terms of reference for the risk committee are identified in the risk committee charter. In summary, the responsibilities of the committee are:

- To assist the board in performing its oversight responsibilities relating to the identification, analysis and management of risks which may have a significant influence on the performance of the company;
- To consider and if appropriate, approve the recommendations of the ERMC for submission to the board and to provide strategic guidance and feedback to the board and ERMC on Vector's risk management policy.

#### **Remuneration Committee**

The remuneration committee comprises at least three directors, and extends a standing invitation to the Chief Executive Officer and the General Manager Corporate Development where appropriate. Michael Stiassny and Brian Plimmer are currently members of the remuneration committee, which is chaired by Don McLaren.

The terms of reference for the remuneration committee are identified in the remuneration committee charter. In summary, the responsibilities of the committee are:

- To consider all appointments at the senior management level (General Manager and Chief Executive Officer) including contractual conditions;
- To monitor the outcomes of policy implementation at senior management level, including incentive payments; and
- To review company remuneration policy at least annually.

The committee reports its decisions and recommendations at the next scheduled board meeting.

It is Vector's policy that remuneration of executives and directors shall be at fair and reasonable levels measured against a competitive market. Remuneration levels for

executives are determined in accordance with the company's remuneration policy, a summary of which is available on Vector's website. Directors' remuneration is determined on the basis of an independent assessment of the competitive market and authorised by an ordinary resolution of shareholders.

## **Corporate responsibility**

### **Governance principles and practices**

In conjunction with the AECT, the board has adopted the following guiding principles and governance objectives:

- Vector will be a leading commercial enterprise in Australasia with a reputation for delivering results through sound strategy;
- Vector will have entrepreneurial agility, being able to identify opportunities and create successful outcomes;
- Vector will be a great employer which values knowledge and talent;
- Vector will deal fairly and honestly with its customers; and
- Vector will be a good corporate citizen.

In addition, the directors have adopted a Code of Practice to guide their personal performance.

### **Code of conduct**

Vector's code of conduct has recently been updated and it sets the ethical standards intended to guide actions that are consistent with Vector's values. These standards are expected of directors, employees and contractors of Vector and its subsidiaries.

Vector's code of conduct covers the following areas:

- Standards of behaviour – professionalism, integrity, loyalty, fairness and honesty – to behave in such a way that reflects credit on Vector;
- Conflicts of interest;
- Receipt and use of company information, assets, gifts and property (including intellectual property);
- Delegated authorities;
- Compliance with laws, regulations and rules;
- Reporting concerns and protections; and
- Disciplinary measures and processes.

The code of conduct will be reviewed annually. Implementation and ongoing monitoring is the responsibility of the corporate team. There has been no serious or unethical behaviour to report during the past financial year.

### **Legal and regulatory compliance**

Vector's board and staff are required to:

- Conduct themselves in a manner that is consistent with all Vector policies, frameworks and processes at all times;
- Comply with all applicable legislation, regulations, local authority by-laws, rules (including the NZX Listing Rules and regulations); and
- Complete all statutory and internal disclosure requirements as required.