



SIMPLIFYING BUSINESS

CORPORATE GOVERNANCE STATEMENT

20
22



Statement of Corporate Governance – FY2022

Framework

The corporate governance processes set out in this statement do not materially differ from the principles set out in the New Zealand Stock Exchange Corporate Governance Best Practice Code issued on May 2017. The information in this report is current as at 25 August 2022 and has been approved by the Board.

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

The Board Charters and key policies are available on the Company’s website: <https://solutiondynamics.com/investor-centre/>.

Principle 1 – Code of Ethical Behaviour

Directors should set high standards of ethical behaviour, model this behaviour and hold management to account for adherence to these standards throughout the organisation.

The Board recognises that high ethical standards and behaviours are central to good corporate governance and it is committed to the observance of a Code of Business Conduct and Ethics throughout the Group.

The Code of Business Conduct and Ethics, which was approved by the Board as part of the process of migrating to the NZX Main Board, provides a framework of standards by which the directors, employees and contractors to SDL and its related companies are expected to conduct themselves. It is intended to facilitate actions and decision-making that is consistent with SDL’s values, business goals and legal obligations and, thereby, enhance performance outcomes.

Employees are expected to report any breaches of the Code in line with the processes outlined in the Code of Business Conduct and Ethics.

A copy of the Code of Business Conduct and Ethics was made available to all employees and is given to all new employees when they join the Group. Any future changes to the Code of Business Conduct and Ethics will be communicated to staff.

SDL has a Share Trading Policy to mitigate the risk of insider trading in SDL’s securities by employees and Directors. A copy of this Policy can also be found with the other policies on the Company website. The Policy was updated in May 2019 as a part of the process of migrating to the NZX Main Board. Additional share trading restrictions apply to Restricted Persons including Directors and certain employees.

Directors’ Share Dealings and Shareholding

Directors disclose the following relevant interests in shares in the Group at 30 June 2022 and transactions in relevant interests in shares during the financial year ended 30 June 2022.

Shareholder	Balance 30 June 2021	Additions	Disposals	Balance 30 June 2022
John McMahon	1,600,658	-	-	1,600,658
Nelson Siva ⁽¹⁾	890,000	-	-	890,000
Andy Preece	53,000	-	-	53,000
Lee Eglinton	18,000	-	-	18,000

(1) Nelson Siva retired as CEO and director in November 2021.

Entries in the Interests Register

In addition to the interests and related party transactions disclosures in Note 29 and the director remuneration disclosed under principle 5 below, the following interests were disclosed to the Board and noted in the interests register during the financial year ended 30 June 2022:

- Indemnification of officers and directors: The Company indemnifies directors and executive officers of the Group against all liabilities which arise out of the performance of their normal duties as director or executive officer.
- Directors' & Officers' insurance: In parallel with the indemnity coverage, the Group has Directors & Officers' liability insurance. The total cost of this insurance expensed during the year ended 30 June 2022 was \$55,060 (2021 - \$54,242).

Conflicts of Interest and Related Parties

All directors must disclose any general and specific interests that could be in conflict with their obligations to the Group. Transactions with related parties and balances outstanding relating to the year ended 30 June 2022 are disclosed in Note 29 of the Notes to the Financial Statements.

Principle 2 – Board Composition & Performance

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

The primary responsibilities of the Board include:

- to establish the vision of the Group
- to establish the long-term goals and strategies of the Group
- to approve annual and half-year financial reports
- to approve annual budgets
- to approve corporate policies
- to ensure the Group has good internal controls and keeps adequate records
- to ensure legislative compliance
- to monitor executive management
- to ensure appropriate communication to stakeholders

Board procedures are governed by the Constitution.

The Board is responsible for setting the strategic direction of the Company, overseeing the financial and operational controls of the business, putting in place appropriate risk management strategies and policies and enhancing its value for shareholders in accordance with good corporate governance principles.

In addition to the Code of Business Conduct and Ethics, the Board also operates under a written Board Charter which sets out the structure of the Board, role and responsibilities of directors, procedures for the nomination, resignation and removal of directors; 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 Board meetings.

The day-to-day management of SDL's business is undertaken by SDL's senior management team under the leadership of the chief executive officer, through a set of delegated authorities which are reviewed annually.

In order to discharge their duties, directors have direct access to and may rely on financial and other management information, and advice provided by SDL's senior management as well as professional advice provided by external advisers. Directors have the right, with the approval of the chairman or by resolution of the Board, to seek independent legal or financial advice at the Company's expense for the proper performance of their duties.

Board Composition and Appointment

The number of elected directors and the procedure for their retirement and re-election at Annual Shareholder Meetings is set out in the Company's constitution.

SDL considers that the nomination process for new director appointments is the responsibility of the whole Board and it does not have a separate Nomination Committee.

The Board takes into consideration tenure, capability, diversity and skills when reviewing Board composition and new appointments.

At each Annual Meeting, one-third of the current directors retire by rotation and are eligible for re-election. Any directors appointed since the previous Annual Meeting must also retire and are eligible for election.

When a new director is appointed, SDL will enter into a written appointment letter setting out the terms of their appointment.

The Board supports the separation of the roles of chairman and CEO. The chair of SDL as at 25 August 2022 is non-executive director, John McMahon, who has (through a related party) a 10.87% shareholding in SDL and is therefore not considered independent under the NZX Main Board Listing Rules. The Board believes that John's shareholding aligns his interests well with those of Solution Dynamics' shareholders' interests. The Directors consider that John's broad analytical and commercial experience, including as a director of other NZX-listed companies, along with his understanding of the Company's products, markets and strategy, mean that he is the right person to lead the Board.

The Board currently comprises five directors (2021: six directors, Nelson Siva retired as CEO and as a director in November 2021), being a non-executive chairman (non-independent, see note above) and four non-executive directors (independent). They are all elected based on the value they bring to the Board.

In order for a director to be independent, the Board has determined that he or she must not be an executive of SDL and must have no 'Disqualifying Relationships'. In this regard, the Board follows the requirements of the NZX Listing Rules (and NZX guidance on the application of those requirements). Information on each director can be found at <http://www.solutiondynamics.com/our-team/>. Director's interests are disclosed on Note 29 of the 2022 Annual Report.

The Company encourages all directors to undertake appropriate training and education so that they may best perform their duties. This includes attending presentations on changes in governance, legal and regulatory frameworks; attending technical and professional development courses. In addition, directors can receive updates on relevant industry and Company issues, and briefings from key executives.

The Board aims to regularly consider individual and collective performance, together with the skillsets, training and development and succession planning required to govern the Group's business.

Diversity

SDL is committed to a culture that actively supports diversity and inclusiveness and prevents or eliminates discrimination in any form. As such, SDL firmly believes that diversity and inclusiveness enables SDL to better respond to the ever-changing environment in which we operate and better serve the diverse customer and stakeholder base to which we are accountable to.

The concept of diversity includes (but is not limited to) concepts of gender, race, ethnicity and cultural background as well as physical capability, age, sexual orientation, and religious or political beliefs.

SDL does not have formal diversity policy. Instead, SDL's Code of Business Conduct and Ethics notes that SDL values diversity and has a workforce consisting of many individuals with diverse skills, values, backgrounds, ethnicity and experience. We attract and retain a diverse workforce and this diversity brings a range of ideals, skills and innovation to SDL, which assists in achieving our objectives. At the date of this report, the Board is yet to consider whether it requires management to provide regular reporting and monitoring on diversity within SDL's workforce.

As at 30 June 2022, the gender balance of SDL's directors and people was as follows:

	30 June 2022	30 June 2021
Directors		
Females	1	1
Males	4	5
Management Team		
Females	1	1
Males	6	6
All Employees		
Females	38	38
Males	51	60

The Management team is defined as being the chief executive officer and senior leaders with reporting lines direct to the chief executive officer.

Board Meetings and Attendance

The Board has 11 scheduled meetings a year.

During the period 1 July 2021 to 30 June 2022 attendance at Board and Committee meetings was:

	Board Meetings ⁽¹⁾		Audit & Risk Committee ⁽²⁾	
	Held	Attended	Held	Attended
John McMahon (Chairman) ⁽¹⁾	11	11	2	2
Julian Beavis	11	10	n/a	n/a
Nelson Siva (CEO) ⁽²⁾	5	3	n/a	n/a
Elmar Toime	11	11	n/a	n/a
Andy Preece ⁽³⁾	11	11	2	2
Lee Eglinton	11	11	2	2

(1) John McMahon is the board chairman.

(2) Nelson Siva retired as CEO and director in November 2021.

(3) Andy Preece is the chairman of the Audit & Risk Management committee.

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 constituted one standing Committee being the Audit and Risk Committee. Due to the size of the Board, matters normally dealt with by remuneration and the nominations committees are dealt with by the full Board.

Committees allow issues requiring detailed consideration to be dealt with separately by members of the Board with specialist knowledge and experience, thereby enhancing the efficiency and effectiveness of the Board. However, the Board retains ultimate responsibility for the functions of its Committees and determines their responsibilities.

The Audit and Risk Committee meets as required and has terms of reference (a Charter). A copy of the Audit and Risk Committee Charter can be found on the Company website under the Board Governance section.

Minutes of each Committee meeting are forwarded to all members of the Board. The Audit and Risk Committee is empowered to seek any information it requires from employees in pursuing its duties and to obtain independent legal or other professional advice.

The membership and performance of the Committee is reviewed annually.

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

As the Board believes that matters of remuneration and nominations are the responsibility of the entire Board, SDL does not consider it necessary to comply with recommendations 3.3 and 3.11 of the NZX Corporate Governance Code and accordingly does not have a separate remuneration committee or nomination committee.

The Board will continue to monitor best practice in the governance area and update SDL's policies to ensure it maintains the most appropriate standards.

Audit and Risk Committee

The role of the Audit and Risk Committee is to assist the Board in carrying out its responsibilities under the Companies Act 1993 and the Financial Reporting Act 2013 regarding accountancy practices, policies and controls relative to the Company's financial position and make appropriate enquiry into the audits of the Company's financial statements. This responsibility includes providing the Board with additional assurance about the quality and reliability of the financial information issued publicly by the Company. All matters required to be addressed and for which the Committee has responsibility were addressed during the 2022 financial year.

A written charter outlines the Audit and Risk Committee's delegated authority, duties, responsibilities and relationship with the Board. The Charter is available on the Company's website.

The Committee must be comprised solely of Directors of SDL, have a minimum of three members, two of whom have a majority of independent Directors and have at least one director with an accounting or financial background. The makeup of the current members of the Committee complies with this recommendation. The chair of the Committee cannot be Chair of the Board.

Members as at 30 June 2022 were Andy Preece (Chairman), Lee Eglinton and John McMahon. It met twice during the financial year.

Management and employees may only attend meetings at the invitation of the committee and the Committee routinely has Committee only time with the external auditors without management present.

Takeovers

The Board has yet to establish protocols or procedures to be followed in the event of a takeover. Nonetheless, the Board understands that any such protocols or procedures would involve SDL forming an independent takeover committee to oversee disclosure and response and engage expert legal and financial advisors to provide advice on procedural matters affecting any such takeover.

Principle 4 – Reporting & Disclosure

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

The Board is committed to keeping shareholders and the market informed of all material information about the Company and its performance and ensure compliance with legislative requirements and those of the NZX Listing Rules.

The release of material information is guided by the NZX Listing Rules (and the Listing Rules guidance provided by NZX).

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

Financial Statements

It is the directors' responsibility to ensure preparation of financial statements that give a true and fair view of the financial position of the Group as at the end of the financial year and the results of operations and cash flows for the year. The external auditors are responsible for expressing an independent opinion on the financial statements.

The consolidated financial statements set out in this report have been prepared by management in accordance with generally accepted accounting practice in New Zealand. They are based on appropriate accounting policies which have been consistently applied and which are supported by reasonable judgements and estimates.

For the financial year ended 30 June 2022, the directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of SDL and the Group and facilitate compliance of the financial statements with the Companies Act 1993 and the Financial Reporting Act 2013.

After reviewing internal management financial reports and budgets the directors believe that the Group will continue to be a going concern in the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

The chief executive and chief financial officer have confirmed in writing to the Board that SDL's external financial reports present a true and fair view in all material aspects.

SDL's full and half year financial statements are available on the Company/s website at: <http://www.solutiondynamics.com/investor-centre/>

Non-financial information

The Board recognises the importance of non-financial disclosure. Given SDL's size the Board has elected not to comply with recommendation 4.3 of the NZX Corporate Governance Code and has not adopted a formal environmental, social and governance (ESG) framework.

SDL discusses its strategic objectives and its progress against these in the Management Discussion and Analysis section of this annual report and at the Annual Meeting.

SDL is committed to using its resources responsibly and is actively working with its supply chain partners to look for opportunities to reduce any negative environmental risk or impact from its business operations, products and services.

The Board encourages diversity and will not knowingly allow SDL to participate in business activities where SDL could be complicit in human rights and labour standard abuses.

Principle 5 – Remuneration

The remuneration of Directors and management should be transparent, fair and reasonable.

The Board promotes the alignment of the interests of the directors, the chief executive officer and management with the long-term interests of shareholders. Remuneration policies and structure are reviewed regularly to ensure remuneration of management and directors is fair and reasonable in a competitive market for the skills, knowledge and experience required by the Company.

The Board recognises that it is desirable that management (including that for any executive director) remuneration should include an element dependent upon the performance of both the Group and the individual, and should be clearly differentiated from non-executive director remuneration.

Details of directors and management remuneration and entitlements for the 2022 financial year are set out in Note 29 of the annual report.

SDL does not have a Remuneration Committee and matters relating to remuneration are dealt with by the full Board.

Directors’ Remuneration

The total remuneration pool available for directors is fixed 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.

Directors are paid on a per director rate as follows:

Position	Approved Remuneration
Chairman	\$60,000
Non-executive Director	\$40,000
Audit & Risk Committee Chair	\$7,500
Hourly rates for abnormal/particularly time intensive projects or transactions outside the scope of typical board work	\$250 /hour

Directors’ remuneration during the year is disclosed in Note 29 of the Notes to the Financial Statements.

Executives' Remuneration

Executive remuneration consists of a fixed base salary, incentives and a Share Option Plan. Incentives are paid against targets agreed with members of the management team at the commencement of the year and are based on earnings and sales targets.

Executives' remuneration greater than \$100,000 per annum received in their capacity as employees during the year is disclosed in Note 29 of the Notes to the Consolidated Financial Statements.

Details of the SDL Share Option Plan are detailed in Note 30 to the 2022 Financial Statements.

Chief Executive Officer Remuneration

The review and approval of the chief executive officer's remuneration is the responsibility of the Board.

The Chief Executive Officer's remuneration comprises a fixed base salary and bonus paid annually.

The CEO's remuneration can be summarised as follows:

Description	(USD000's)
Base salary	250
Maximum incentive ⁽¹⁾	194
Total on target earnings	444

(1) This includes an assessed share option cost (refer note 30) and a performance incentive based on Company earnings paid annually in arrears

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.

SDL is committed to proactively managing risk. Whilst risk management, and the Group's system of internal controls, is the responsibility of the entire Board, the Audit and Risk Committee assists the Board and provides additional oversight with regard to the risk management framework and monitoring compliance with that framework.

The Board monitors the operational and financial aspects of the Group and considers recommendations from external auditors and advisors on the risks that the Group faces.

The Board ensures that recommendations made are assessed and appropriate action is taken where necessary to ensure risks are managed appropriately.

The Board's approach to risk management is incorporated into the Audit and Risk Committee Charter, which can be found under Board Governance on the Company's website.

The Board delegates day-to-day management of the risk to the chief executive officer. SDL's management team is required to regularly identify the major risks affecting SDL's business and develop structures, practices and processes to manage and monitor these risks.

It is the responsibility of the directors to ensure adequate accounting records are kept. Directors are also responsible for the Group's system of internal financial controls.

Internal financial controls have been implemented to minimize the possibility of material misstatement. They can provide only reasonable assurance and not absolute assurance against material misstatements or loss.

No major breakdowns of internal controls were identified during the year.

The Board is satisfied that SDL has in place a risk management process to effectively identify, manage and monitor SDL's principal risks.

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

Key financial and non-financial risks are included in Note 28 to the financial statements.

Health and Safety

The 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 SDL's employees and contractors. The Board is responsible for ensuring that the systems used to identify and manage health and safety risks are fit for purpose, being effectively implemented, regularly reviewed and continuously improved.

SDL has a Health and Safety Charter which is monitored by the management team. Health and Safety reports, including incident reports, for SDL's business are included in the compliance section of the Board papers.

Principle 7 –Auditors

The Board should ensure the quality and independence of the external audit process.

The Board's approach to the appointment and oversight of the external auditor are outlined in SDL's Audit and Risk Committee Charter, which can be found on the Company's website. Amongst other things, the Charter is designed to ensure that audit independence is maintained, both in fact and appearance, so that SDL's external financial reporting is viewed as being highly reliable and credible.

The Audit and Risk Committee provides additional oversight of the external auditor reviews the quality and cost of the audit undertaken by SDL's external auditors and provides a formal channel of communication between the Board, the management team and the external auditors. The Committee also assesses the auditor's independence on an annual basis. These requirements are detailed in the Audit and Risk Committee Charter.

For the financial year ended 30 June 2022, Grant Thornton continued in their appointment as the external auditor for SDL. Grant Thornton has occupied that role since 2009. The audit partner has been rotated in 2021 (the prior rotation was in 2016).

All audit work at SDL is fully separated from any non-audit services, to ensure that appropriate independence is maintained. The amount of fees paid to Grant Thornton for audit and other services is identified in Note 6 of this annual report.

Grant Thornton has provided the Board with written confirmation that, in their view, they were able to operate independently during the financial year.

Grant Thornton attends the Annual Meeting, and the lead audit partner is available to answer questions from shareholders at that meeting. In this capacity, Grant Thornton attended the 2021 annual meeting.

SDL has a number of internal controls overseen by Audit and Risk Committee, including controls for computerised information system, security, business continuity management, insurance, health and safety, conflicts of interest, and prevention and identification of fraud. SDL does not have a dedicated Group internal auditor role.

Principle 8 – Shareholder Rights & 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 dialogue and to facilitating engagement with shareholders.

SDL has a calendar of communications for shareholders, including but not limited to:

- Annual and Half-Yearly Reports
- Market announcements
- Annual Meeting
- Access to information through the SDL website www.solutiondynamics.com

SDL Company maintains a comprehensive website which provides access to key corporate governance documents, copies of all major announcements and Company reports.

Shareholders are encouraged to attend the Annual Meeting and may raise matters for discussion at the meeting. In accordance with NZX Corporate Governance Code, the Board ensured that the notice of the Annual Meeting was posted to SDL's website as soon as possible and at least 20 working days prior to the meeting.

Shareholders have the ultimate control in corporate governance by voting Directors on or off the Board. Voting is by poll, upholding the 'one share, one vote' philosophy.

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

All shareholders are given the option to elect to receive electronic communications from SDL. In addition to shareholders, SDL has a wide range of stakeholders and maintains open channels of communication for all audiences, including shareholders, brokers and the investing community, as well as our staff, suppliers and customers.



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