



**PIKE RIVER COAL LIMITED**  
**(“Pike River”)**

**DISCLOSURE STATEMENT**

**IMPLEMENTATION OF CORPORATE GOVERNANCE BEST PRACTICE  
RECOMMENDATIONS.**

This statement discloses Pike River's compliance with the corporate governance requirements of the NZSX Listing Rules, the ASX Listing Rules, and the New Zealand Securities Commission's Code of Best Practice.

The ASX Corporate Governance Council's August 2007 *Corporate Governance Principles and Best Practice Recommendations* acknowledge that there is no single model of good corporate governance. For this reason it is considered important that each company disclose the corporate governance arrangements they observe and explain the practices considered appropriate to that company.

The governance arrangements of Pike River are set by the board of directors having regard to the particular circumstances of the company and the best interests of shareholders. Where Pike River's practice varies from corporate governance recommendations the statement identifies the area of, and the reasons for, the variation.

In this Disclosure Statement reference to the company's website is principally to the corporate governance section at [www.pike.co.nz/corporate\\_governance.php](http://www.pike.co.nz/corporate_governance.php) - reference to the Annual Report is to the two documents which comprise Pike River's Annual Report, being the Annual Review and the Financial Review.

**Principle 1: Lay solid foundations for management and oversight.**

*Establish and disclose the respective roles and responsibilities of board and management.*

Recommendations:

***1.1 Establish and disclose the functions reserved to the board and those delegated to senior executives.***

Pike River has formalized the functions reserved to the board and those delegated to management, and set these out in a Board Charter.

The board is responsible for the overall corporate governance of the company including the strategic direction, determination of policy, and matters of finance, approval of significant contracts, capital and operating costs, and financial arrangements and investments. The Board Charter is published in the company's website, contained in its corporate manual, and is summarised in each year's Annual Report.

Pike River's management provides detailed papers for each board meeting and attends meetings to answer any questions directors might have. Directors are free to request any further information they may require.

### ***1.2 Disclose the process for evaluation the performance of senior executives.***

Pike River has a formal process for setting, reviewing, and reporting on the performance of senior executives. All senior executives have a formal job description and letters of appointment. There is a detailed induction programme for all new staff appropriate to that person's position. Key performance indicators are set annually for each senior executive at a realistically achievable level, and performance is reviewed by the Remuneration Committee. Through assessed performance being applied to the discretionary portion of the senior executive's salary package exceptional achievement is rewarded. Annual performance evaluations have been undertaken in accordance with the formal process.

## **Principle 2: Structure the board to add value**

*Have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.*

Recommendations:

### ***2.1 A majority of the board should be independent directors.***

Pike River has two independent directors (including the chairman), one executive director, and four non-executive directors nominated by the three major shareholders. The board considers that two independent directors are appropriate for a company of Pike River's size and having regard to its shareholding structure. The two independent directors have no association with the company other than in their director roles. The position of each non-executive director will be reviewed if their nominating shareholder ceases to be a substantial shareholder.

The board confirms the status of independent directors each year, releases this information to the stock exchanges, and includes the information in the corporate governance section of Pike River's Annual Report.

### ***2.2 The chairperson should be an independent director and the roles of the chairperson and CEO should not be exercised by the same individual.***

The chairman of Pike River is an independent director, who has no executive role in the company.

The CEO is the managing director, who is an executive director.

Information on the chairman, CEO, and directors is contained in Pike River's Annual Report, and available on the company's website.

### ***2.3 The board should establish a nomination committee.***

Pike River considers that it will benefit from having the whole board involved in the selection process for any new independent board member when that situation arises, and that the board is not currently of a size where a nomination committee will add additional value.

Retirement and rotation of directors is governed by the constitution of the company and the listing rules. Each year one-third of the directors (excluding the CEO) must retire and offer themselves for re-election. Any casual vacancy filled between general meetings will be subject to shareholder vote at the annual meeting which follows the new appointment. Each year Pike River advises the market through the stock exchanges of the closing date for external nominations for directors.

## **2.4 Disclose the process for evaluating the performance of the board, its committees, and individual directors.**

Pike River does not have a formal process for the evaluation of the performance of the board or individual directors due to the size and composition of the board. This is left to the discretion of the chairman. The performance of the managing director, as an executive appointment, is reviewed by the Remuneration Committee as part of the formal reviews of executive staff.

The chairman is responsible for fostering a constructive governance culture and applying appropriate governance principles among directors and with management. Each director has the right to seek independent professional advice in relation to matters arising in the conduct of director's duties at the company's expense subject to prior approval of the chairman which is not to be unreasonably withheld. All directors have ready access to the company secretary.

The board has an informal induction programme for new directors. It did not prepare formal letters of appointment for existing directors.

Directors are required on an ongoing basis to disclose to the board relevant interests and any conflicts of interest. Director's disclosures of interests, and their date of appointment, is included in each year's Annual Report.

A description of the skills and experience of directors is published in the company's website, and included in each year's Annual Report. Appointment of directors is generally based on their ability to contribute the appropriate skills and experience required to assist Pike River in its operations and future development.

## **Principle 3: Promote ethical and responsible decision-making**

*Actively promote ethical and responsible decision-making.*

Recommendations:

### **3.1 Establish a code of conduct.**

Pike River has a Code of Business Conduct and Ethics which is available on its website, and is contained in its corporate manual. It sets out:

- *The practices necessary to maintain confidence in the company's integrity*
- *The practices necessary to take into account legal obligations and the reasonable expectation of stakeholders*
- *The responsibility and accountability for reporting and investigating reports of unethical practices, and measures for dealing with breaches of the code.*

Pike River has a detailed Code of Conduct for employees as part of its company-wide management practices, intended to operate in conjunction with the Code of Business Conduct and Ethics.

### **3.2 Disclose the policy concerning trading in company securities.**

Pike River has Securities Trading Policies for directors and officers, and employees and contractors. The Company's policy is that directors, officers, employees, and contractors must observe the insider trading requirements of the Securities Markets Act, and the provisions of the Pike River Securities Trading Policies. These policies are available on the company's website, and are contained in its corporate manual. The Securities Trading Policy for staff and contractors is disseminated to individuals when they commence working for Pike River.

## **Principle 4: Safeguard integrity in financial reporting**

*Have a structure to independently verify and safeguard the integrity of the company's financial reporting.*

Recommendations:

### ***4.1 Establish an Audit Committee.***

Pike River has an Audit Committee. Proceedings of the Audit Committee are reported back to the board to allow other directors to question committee members. Other directors and employees only attend Audit Committee meetings by invitation of the Audit Committee.

### ***4.2 Structure of the Audit Committee.***

The Audit Committee meets four times a year, and is made up of three non-executive directors.

Due to the composition of the board it is currently impracticable for the Audit Committee to comprise a majority of independent directors. The board considers that the effectiveness of the Audit Committee is not impaired because of this.

The chairman of the Audit Committee is an independent director with a financial background. , The board chairman is not a member of the Audit Committee.

The Board considers that the Audit Committee is of sufficient size, independence, and has the technical expertise to effectively discharge its mandate.

### ***4.3 The Audit Committee should have a formal charter.***

The Pike River Audit Committee has a formal charter which is available on the company's website, and in the corporate manual. Details on the Audit Committee are included in each year's Financial Review.

### ***4.4 Procedure for appointment and rotation of external auditor.***

The company's external auditor is automatically reappointed each year unless one of the exceptions specified in the Companies Act occurs.

The Audit Committee is responsible for monitoring the performance and independence of the company's external auditors; and if necessary implementing a selection process and making a recommendation to the board. In that situation the assessment of responses from potential external auditors will take into account a number of criteria.

In line with current professional standards, the company requires the audit partner and the review partner of its external auditor to change every five years. The company's external auditors are required to abide by the independence regulations set out in the Code of Ethics on Independence issued by the International Federation of Accountants, and New Zealand Institute of Chartered Accountant's rules regarding auditor independence.

## **Principle 5: Making timely and balanced disclosure**

*Promote timely and balanced disclosure of all material matters concerning the company.*

Recommendation:

### ***5.1 Establish written policies to ensure compliance with listing rule disclosure requirements and to ensure accountability at a senior executive level for that compliance.***

Pike River has formal procedures aimed at ensuring compliance with Listing Rules and disclosure requirements, including a vetting and authorization process. These procedures are intended to ensure compliance with continuous disclosure requirements, and the presentation of announcements in a factual, timely, and balanced manner. The procedures reflect Pike River's status as a dual-listed company. The CEO has overall responsibility for compliance with listing rules.

Pike River does not have a specific Continuous Disclosure Policy as its formal procedures are based on listing rule requirements which are detailed and prescriptive. The board considers this is appropriate for the company at its current size and stage of development.

A key component in Pike River's disclosure strategy is the company website, which provides the means for shareholders and investors to communicate with the company, view stock exchange releases, view information on the company, and link through to share prices and the share registry. Pike River provides an email service whereby shareholders and other interested parties can automatically receive releases made by the company.

Shareholders can use the website to communicate with the company, ask any questions they may have, advise whether they wish to receive annual reports electronically, and register to receive Pike River releases via email.

## **Principle 6: Respect the Rights of Shareholders**

*Respect the rights of shareholders and facilitate the effective exercise of those rights.*

Recommendation:

### **6.1 Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings.**

Pike River has a comprehensive Stakeholder Relationship Management Plan, which includes effective communication with shareholders, and shareholder participation at shareholder meetings and investor briefings. Associated with this Plan are Stock Exchange Announcement and Website update procedures reflecting the importance of those aspects of the communications policy.

Shareholders are encouraged to receive Pike River releases direct by email, and an email circulation list is maintained for this purpose. Shareholders and other interested parties can subscribe to this list through the company's website or by contacting the company's share registrar.

As releases are made to the stock exchanges they are added to the relevant section of the Pike River website, and are available for viewing by shareholders and the public. Media or analyst briefings are posted on the website.

Pike River has a practice of following its annual meeting with a series of shareholder briefings in other locations for shareholders who were unable to attend the formal annual meeting. Shareholder participation is encouraged at each of these meetings. For shareholders unable to attend the formal annual meeting Pike River is introducing a facility whereby proxy votes can be lodged by email.

## **Principle 7: Recognise and manage risk**

*Establish a sound system of risk oversight and management and internal control.*

Recommendations:

### **7.1 Establish policies on risk oversight & management of material business risks.**

The identification and effective management of risk is viewed as an essential part of the company's approach to creating long-term shareholder value. Pike River has developed a framework for risk

management and internal compliance and control systems which cover organizational, financial and operational aspects of the company's activities.

The potential exposures involved in running the company have been managed by the appointment of directors and senior staff and consultants who have significant broad industry experience. The Pike River Board has overall responsibility for the establishment and oversight of the company's risk management framework. Pike River's risk management policies are established to identify and analyse the risks faced by the company, to set appropriate risk limited and controls, and to monitor risks and adherence to limits. Risk management policies and systems are subject to regular review and are under continual development to reflect changes in market conditions and changes in Pike River's activities and exposures.

The Pike River board considers that its current approach to risk management is appropriate to the size of the company with a single mine operation, and to the stage and nature of the business. Each Pike River Annual Report includes details on the company's risk oversight and management of material business risks.

***7.2 Management design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.***

Management is responsible for designing, implementing and reporting on the adequacy of the company's risk management and internal control system. The board requires that management reports to it on a monthly basis as to whether material business risks are being effectively managed, and to the Audit Committee and the Health, Safety and Environment Committee on the company's key risks as appropriate.

The board has a Health, Safety and Environment Committee comprising two non-executive directors with mining and engineering experience. The Health, Safety and Environment Committee has a charter which is included in the Corporate Governance manual, and is available on the company's website.

Pike River has systems for risk oversight, and management and internal control, and more detailed workplace policies for relevant staff. In particular there is a strong safety culture which is fostered by management. Through the environmental manager, and the safety & training manager, detailed compliance programmes operate to ensure the company meets its regulatory obligations.

Strategic and operational risks are reviewed at least annually as part of the annual business planning, forecasting and budgeting process.

***7.3 The board should disclose whether it has received assurance from the chief executive officer and the chief financial officer that the annual letter of representation is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.***

The board receives annual written assurance by means of a letter of representation from the chief executive officer, the general manager mines, and the financial controller that to the best of their knowledge and belief, the declaration provided by them in relation to the annual financial accounts is founded on a sound system of risk management and internal control and that the system is operating effectively in relation to financial reporting risks.

## **Principle 8: Remunerate fairly and responsibly**

*Ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.*

Recommendations:

### ***8.1 Establish a Remuneration Committee***

Pike River has a Remuneration Committee comprising three non-executive directors. The board considers that the Remuneration Committee is of sufficient size, independence, and with the technical expertise to effectively discharge its mandate. Proceedings of the Remuneration Committee are reported back to the board to allow other directors to question committee members.

### ***8.2 Clearly distinguish the structure of non-executive directors from that of executive directors and senior executives.***

Pike River has clearly distinguished the structure of non-executive director remuneration from that of executive directors and senior executives. The only executive director is the managing director. Pike River discloses relevant information in each year's Annual Report in accordance with New Zealand Companies Act requirements.

### ***8.3 The Remuneration Committee should have a formal charter.***

The Remuneration Committee has a charter which is included in the Corporate Governance manual, and available on the company's website. Details on the Remuneration Committee are included in each year's Annual Report. The Remuneration Committee meets twice a year.

### ***8.4 Directors be encouraged to take a portion of their remuneration under a performance-based equity security compensation plan.***

The Pike River board considers that a performance based equity securities compensation plan for directors is not appropriate for the company at its current size, structure, and stage of development; and considers that the matter of equity ownership in the company should be left to each director's individual preference.

**31 August 2009**