

# Corporate Governance Statement 2007

## **Corporate Governance Statement**

This statement outlines the Company's main corporate governance practices that were in place for the financial year ended 30 June 2007.

### **Responsibilities of the Board**

The Board operates in accordance with the principles laid out in its Charter, which is available on the Company's internet site ([www.scottcorp.com.au](http://www.scottcorp.com.au)). This Charter details the Board's purpose, composition and functions. The Board recognises its responsibility to act honestly, fairly, diligently and in accordance with the law in serving the interests of Scott Corporation Limited (The Company) and its shareholders, whilst also recognising the interests of its employees, customers and the community.

The functions and responsibilities of the Board include:

- Approve the strategic direction and financial objectives of the consolidated entity
- Monitor management's implementation of the Strategic Plan and the achievement of the Board's financial objectives
- Maintain and enhance the Group's strong stance on safety, health, the environment and other related issues
- Ensure proper management of safety, health and environmental issues and review performance and progress against plans and policies
- Appoint and, where appropriate, remove the Managing Director and determine his or her remuneration
- Ratify the appointment of and, where appropriate, removal of the Chief Financial Officer and the Company Secretary
- Approve the remuneration and conditions of service of the senior managers reporting to the Managing Director
- Review and ratify systems of risk management and internal compliance and control
- Approve and monitor major capital expenditure projects and business acquisitions and divestments
- Approve the issue of any shares, options, equity instruments or other securities of the Company
- Approve the Company's delegation of authority policy
- Approve expenditure and other matters requiring Board approval
- Approve all half yearly and annual financial reports for release to the market
- Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements
- Maintain a code of conduct to guide compliance with legal obligations to all stakeholders
- Maintain and review at least every 3 years the Board and Board Committee charters
- Monitor the activities and performance of Board Committees
- Evaluate at least annually the performance of the Managing Director and the senior management team
- Review annually the structure and performance of the Board and make decisions on new appointments to the Board
- Establish and monitor executive succession planning and executive development activities

To assist in the execution of its responsibilities, the Board has in place a Safety, Health and Environment ("SHE") Committee, an Audit Committee and a Remuneration Committee.

### **Composition of the Board**

The Company's Constitution requires that the Board consist of between four and twelve directors, however, it is not the intention of the present Board to increase its number beyond a maximum of six.

The composition of the Board is currently determined using the following principles:

- the Board should comprise of no more than six Directors
- the Board should comprise a majority of Non-executive Directors
- at least one third of the Non-executive Directors should be independent Directors
- the Chairman should be a Non-executive Director
- the Board should comprise Directors with a broad range of expertise and experience.

The criteria for independence are set out on page XX.

The Board is conscious of the fact that its current composition does not include a majority of independent Directors, nor is the Chairman an independent Director. The Board has considered this carefully in the light of the Company's shareholding and the small size of the Board. The Directors that do not fit the definition of independent bring considerable transport related experience to the Board. The Company considers therefore, that its current Chairman and present mix of independent and non-independent Directors is in the best interests of the Group.

The Company does not have a Nominations Committee as the functions that would normally be undertaken by a committee of this type are performed by the Board as a whole. When a vacancy exists, or where it is considered that the Board would benefit from the services of a new Director, the Directors identify and recommend suitable candidates to the Board. The Board then appoints the most suitable person who, with the exception of the Managing Director, must then stand for election at the next general meeting of shareholders.

The Chairman and the Board periodically review the composition of the Board to ensure that the Board has an appropriate mix of expertise and experience.

Except for the Managing Director, Directors must stand for re-election every three years. The terms and conditions of the appointment and the retirement of Directors, including the Managing Director, are considered by the Remuneration Committee and approved by the Board. A formal letter of appointment is provided to all incoming Non-executive Directors. The Board has a process for the review of the performance of the Board on an annual basis. This process involves a written questionnaire that each Director completes appraising the performance of the Board.

The time in office of each Director is listed on page x of this Annual Report.

The Company does not have a Directors' Retirement plan.

### **Directors' Independence**

The Board considers that for a Director to be independent, the Director must be non-executive and:

- not be a substantial shareholder, or otherwise associated directly or indirectly with a substantial shareholder of the Company
- not have been employed in an executive capacity by the Company or one of its subsidiaries within the last three years, and did not become a Director within three years of being so employed
- not have been a material<sup>1</sup> professional adviser to the Company or one of its subsidiaries either as a principal, a material consultant or an employee materially associated with the service provided within the last three years
- not be a partner in or controlling shareholder or executive officer of a material supplier or customer of the Company or any of its subsidiaries, and not otherwise associated directly or indirectly with such a supplier or customer
- have no material contractual relationship with the Company or any of its subsidiaries other than as a Director of the Company
- not have served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company

### **Role of the Chairman and Managing Director**

The Chairman is responsible for ensuring that meetings are conducted competently and ethically and for providing effective leadership in monitoring the strategic direction of the Company. The Managing Director is responsible for implementing the Company's strategies and policies.

The Managing Director holds a delegated authority from the Board to execute the Company's strategies and policies, excluding those matters that are the Board's responsibility listed on Page X. The Managing Director has developed a framework that delegates authority to committees and individual members of management. Notwithstanding those further delegations, the Managing Director remains accountable to the Board for the authority delegated to him.

### **Conflict of Interest**

In accordance with the Corporations Act and the Company's Constitution, Directors give standing notice on appointment, of any interest that could potentially conflict with that of the Company and must advise the Board of any changes. Where the Board believes a significant conflict of interest exists, the Director concerned does not receive the relevant Board papers and is not present at the meeting whilst the item is considered.

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<sup>1</sup> For independence purposes, a professional adviser, consultant, supplier or customer of the Company is considered to be "material" where the total amount paid or billed to that person in any financial year exceeds \$100,000.

### **Director Education**

The Company has a process to educate new Directors about the nature of the business, current issues, corporate strategy and the Company's expectations of Directors. All Directors are made aware of their rights to access employees, information and resources. Directors may visit facilities of the Group and meet with management to gain a better understanding of business operations.

### **Independent Professional Advice**

Each Director has the right of access to all relevant Company information and to the Group executives. Each Director also has the right to seek independent professional advice at the Company's expense, subject to the prior approval of the Chairman and compliance with any policy or procedure adopted by the Board in respect of seeking such advice.

### **Directors' Dealing in Company Shares**

The Constitution does not preclude Directors from acquiring shares in the Company. It is the Company's policy however, that the Directors only buy or sell shares in the Company in the six week period immediately following any price sensitive announcement. Board approval is required for transactions made outside of this period. All transactions are subject to the overall restriction that persons may never deal in any securities when they are in possession of price sensitive information.

In accordance with the provisions of the Corporations Act and the ASX Listing Rules, the Company Secretary advises the ASX of any transactions conducted by Directors in shares in the Company. All Directors have entered into written agreements to notify the Company Secretary when they buy or sell Company shares. This information is also reported to the Board.

### **Financial Reporting**

The Board has the ultimate responsibility to ensure the integrity of the Company's financial reporting. Assistance in this process is provided by the Audit Committee which considers and reviews the financial statements and ensures the independence of the Auditor. The Managing Director and the Chief Financial Officer are also required to state to the Board in writing their opinion that the statements represent a true and fair view in all material aspects of the financial condition of the Group, that the statements have been prepared in accordance with relevant accounting standards, and that the Group risk management and internal compliance systems are operating efficiently and effectively in all material aspects.

### **Significant Business Risk**

The Board is responsible for reviewing areas of significant business risk to ensure a full analysis is undertaken of the risks involved. These matters are analysed and discussed at least annually as part of the detailed business planning process for each of the individual operating areas of the Group and more frequently as required. The Board provides assistance to management in the development and maintenance of processes to minimise and mitigate business risks. The Board engaged risk management consultants in 2006 to identify the risk culture, risk oversight and risk management occurring within the Company, and subsequently to document a formal risk management policy and implement relevant procedures. During 2007, management established a Risk Management Committee to implement relevant processes and procedures and to continuously review all relevant practices.

### **Internal Compliance and Control**

The strength of the Company's risk management and internal control framework is founded on a combination of formal policies, procedures, practices and informal controls including management competence, management skills and safety council committees who monitor the Company's SHE performance. The Board has overall responsibility for internal compliance but recognises the importance of internal control systems that the Company currently has in place which include:

- Business and strategic planning, budgeting and forecasting – a comprehensive business and strategic planning and budgeting process by month, including evaluation of strategies, objectives, and risks which underpin business strategic plan and annual budgets approved by the Board. Monthly actual performance is measured against budget and forecast, individual company and business units' performance are monitored, executive SHE meetings are conducted and reported to the Board and the Board subcommittees.
- Internal audit - the Company has established a process where two teams of appropriately qualified finance executives undertake a program of internal audit work within the Group on an annual basis. The program of audits and the scope of the work to be undertaken is approved by the Audit Committee on an annual basis. The results of each audit are reported to the Audit Committee and the external Auditor.
- Corporate policies - Board approves corporate policies which address such matters of Duty of Care, Drug and Alcohol, Environmental, EEO and Affirmative Action, Mobile Phone and CB use, Smoking, Privacy and SHE, Corporate Governance and Company policies.
- Investment decisions – the Company has documented policy for capital expenditure and investment appraisals. These include annual capital budgets, appraisal against finance hurdles, appropriate levels of authority, maintenance capital plans and expenditure review. Post investment reviews are performed to assess the effectiveness of funds invested in asset acquisitions.
- Group assurance and monitoring – these include internal audits, independent branch safety audits, corrective action responses to all incidents, dangerous goods audits, satellite tracking device to monitor activities and regular balance sheet and cash flow reviews.

### **Code of Conduct and Ethical Standards**

The Group has in place a Code of Conduct that set out the standards, in accordance with which Directors, managers and employees of the Group are expected to act. The requirement to comply with such standards is communicated to Directors, managers and relevant staff. The Code is available on the Company's internet site ([www.scottcorp.com.au](http://www.scottcorp.com.au)). The Code deals with the following areas:

- employment matters
- business laws and practices
- safety, health and environment matters

## **Shareholder and Market Information**

The Board aims to ensure that all shareholders and investors have equal access to the Company's information. The Chairman, Managing Director and Company Secretary are responsible for ensuring compliance with these aims. The Chief Financial Officer is responsible for all communications with the ASX, which will generally be undertaken by the Company Secretary. All price sensitive information is disclosed to the ASX in accordance with the continuous disclosure requirements of the Corporations Act and the ASX Listing Rules. The Company has established a process whereby Directors are kept advised of all statutory reporting requirements in advance and immediately advised of all announcements. The Company Secretary has advised all senior managers of the Company's obligations under the continuous disclosure provisions of the ASX Listing Rules. The Company considers it has complied with all of its continuous disclosure obligations.

The Company has a shareholder communications strategy that includes the following:

- the Annual Report - which is distributed to all shareholders (unless a shareholder has specifically requested not to receive the document). The Board ensures that the Annual Report contains disclosures required by the Corporations Act and the ASX Listing Rules
- the Chairman's Address – which is presented at the Annual General Meeting
- the Managing Director's Address – which is presented at the Annual General Meeting
- the Half-Yearly Report – which is sent to all shareholders (unless a shareholder has specifically requested not to receive the document)
- ASX notification – of any significant matters regarding the Group in accordance with the ASX Listing Rules
- the Company's internet site ([www.scottcorp.com.au](http://www.scottcorp.com.au)) – to which this Corporate Governance Statement and the above information is also posted

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the Group strategy and goals. Important issues are presented to shareholders as single resolutions and in plain English. Shareholders are responsible for voting on the election of Directors.

The Auditor attends the Annual General Meeting. The Auditor's presence at the meeting is acknowledged by the Chairman who invites shareholders to ask any questions of the Auditor relating to the conduct of the audit, or the preparation and content of the Audit Report.

## **Safety, Health and Environment**

The Group operations are subject to various health, safety and environmental regulations under Commonwealth, State and Territory legislation. The Board has established a Safety, Health and Environment reporting system and monitors compliance with existing regulations and new regulations as they are enacted. Procedures to be followed, should an incident occur that adversely impacts the environment, are documented in various operating manuals. These manuals are provided, together with training on incident response, to all relevant employees. The Group undertakes regular environmental risk assessments and compliance checks at all sites.

To maintain and enhance the Group's strong stance on safety, the environment and other related issues, the Board has established a Safety, Health and Environment Committee. The role of the Safety, Health and Environment Committee is documented in a charter, which is approved by the Board, and is available on the Company's internet site ([www.scottcorp.com.au](http://www.scottcorp.com.au)).

The members of the Safety, Health, and Environment Committee during and since the financial year are;

- Mr. B.C. Grubb – Non-executive Director (Chairman)
- Mr. B.S. Johnson – Independent Non-executive Director
- Mr. D.B. Keane – Managing Director

The Chief Financial Officer and the Group Safety, Health & Environment Manager are invited to attend Committee meetings. The responsibilities of the Committee are to review the strategic plans and policies of the Group and the implementation of those policies to ensure proper management of safety, health and environmental issues and to review performance and monitor progress of those plans and policies. As safety is a key issue to the Group's future operations, the Board considers it essential that it is involved directly in compliance through this Committee.

The Committee meets on a quarterly basis or otherwise as required and subsequently reports to the Board.

#### **Audit Committee**

The role of the Audit Committee is documented in a charter, which is approved by the Board, and is available on the Company's internet site ([www.scottcorp.com.au](http://www.scottcorp.com.au)). The role of the Committee is to serve as an independent and objective body to monitor the Group financial reporting process and internal control systems. The Committee also provides an open avenue of communication between the Board, internal and external auditors and senior executives. The Audit Committee consists of non-executive Directors, and is chaired by a Director other than the Chairman of the Board. The qualifications and experience of Committee members are detailed on page X of this Annual Report. All Committee members are familiar with finance and accounting procedures and the Committee Chairman, Mr. B.S. Johnson, has over 20 years commercial legal experience and is currently the General Counsel of Qantas Airways Ltd.

The members of the Audit Committee during and since the financial year are;

- Mr. B.S. Johnson – Independent Non-executive Director (Chairman)
- Mr. A.F. Johnson – Non-executive Director

The Directors, Chief Financial Officer/Company Secretary and the external Auditor are invited to attend Committee meetings. Other executives may be invited to Committee meetings at the discretion of the Committee. The responsibilities of the Audit Committee include:

- reviewing the financial reports and other financial information distributed externally
- reviewing any new accounting policies to ensure compliance with Australian Accounting Standards, Australian equivalents to International Financial Reporting Standards and generally accepted accounting principles
- monitoring compliance with the Corporations Act, the ASX Listing Rules and other legislative and reporting requirements
- monitoring the corporate risk assessment process
- reviewing and approving the annual audit fee
- liaising with the external Auditor and ensuring that the annual statutory audit and half year reviews are conducted in an effective manner
- considering whether material non audit services provided by the external Auditor are consistent with maintaining the external Auditor's independence
- approving the annual internal audit plan, evaluating and monitoring internal audit activities
- reviewing internal and external audit reports
- monitoring the review of the effectiveness of management information systems, and systems of internal control
- reviewing reports on any frauds or theft from the Group
- addressing any matters outstanding with the external Auditor or statutory authorities

The Audit Committee meets at least four times per year. The Committee reviews the performance of the external Auditor on an annual basis and meets with them during the year to discuss a number of matters including the external audit plan, proposed fees for audit work to be performed, half year and annual reporting and other matters as necessary. The Committee also meets with the external Auditor without the presence of management for a portion of each meeting.

### **Remuneration Committee**

The Remuneration Committee is responsible for monitoring the performance of, and making recommendations to the Board on remuneration policies and packages applicable to Board members, the Secretary and senior managers of the Company and the Group. The role of the Committee is documented in a charter, which is approved by the Board, and is available on the Company's internet site ([www.scottcorp.com.au](http://www.scottcorp.com.au)). The Company does not have a Nominations Committee. Where a Board vacancy exists, the Board as a whole fulfils this role.

The Committee also plays a role in senior managers' performance evaluation and management succession planning. All members of the Committee are non-executive Directors.

When required, the Remuneration Committee obtains independent advice, as appropriate, on the level of remuneration packages. It is the Board's policy that remuneration levels properly reflect the person's duties and responsibilities and that remuneration levels are competitive to attract, motivate and retain high quality people. To closely align the interests of senior executives with those of the Company, the remuneration packages of all senior executives include an at-risk component that is linked to the overall financial and operational performance. Performance benchmarks are calculated on a formula based on one half on the Group safety health and environment performance, and one half on its financial performance to the entity budget approved by the Board.

The members of the Remuneration Committee during and since the financial year are:

- Mr. A.F. Johnson – Non-executive Director (Chairman)
- Mr. B.C. Grubb – Non-executive Director
- Mr. B.S Johnson – Independent Non-executive Director

The Remuneration Committee meets as required.

Details of Directors' remuneration and the remuneration of the highest paid senior managers of both the Company and the Group are set out on page X of this Annual Report.