

# Corporate governance statement

In accordance with ASX Listing Rule 4.10.3, set out below are the ASX Corporate Governance Council's eight principles of good corporate governance and the extent to which the Company has sought to comply with these recommendations for each.

## Principle 1: Lay solid foundations for management and oversight

The Principle requires the Company to establish and disclose the respective roles and responsibilities of both the Board and Management.

| ASX recommendation / disclosure obligation  | Company's response  |
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| <b>1.1 Establish functions reserved to Board and those delegated to senior executives</b> | <p>The Board has clear policies and processes to delineate the respective functions, roles and responsibilities of the Board and Management.</p> <p>The Board has adopted a charter that sets out the role, composition and responsibilities reserved by the Board, those delegated to the Managing Director, and those specific to the Chairman. The conduct of the Board is also governed by the Constitution of the Company. The Board has also adopted a Delegations Policy which formalises and discloses the functions delegated to senior management outside the Board.</p>  |
| <b>1.2 Process for evaluating performance of senior executives</b>                        | <p>There are 4 components to evaluating the performance of senior executives. Prior to the commencement of the financial year, a Budget/strategy session is held involving the Managing Director/Chief Executive Officer ("CEO") and all department heads and a business plan for each department for the forthcoming year is agreed with the CEO. Annual performance appraisals of each department head are conducted by the CEO in July and KPIs that have been agreed by the department head and CEO are filtered down to individual team members. Bi-annual reviews are conducted to provide formal feedback to department heads regarding their individual and team's performance and to plan for the next 6 months. Performance is regularly reviewed at monthly meetings between department heads and the CEO.</p> <p>Adopting this process, the performance of senior executives was evaluated during the financial year.</p> |
| <b>1.3 Availability of information</b>  | <p>A copy of the Board Charter and Constitution is available on the Company's website. A copy of the Delegations Policy can be made available upon request.</p>   |

## Principle 2: Structure the Board to add value

The Principle requires the Company to have a Board of effective composition, size and commitment to adequately discharge its responsibilities and duties.

The Board considers that individually and collectively the directors bring a level of skill, knowledge and experience that enables the Board to discharge its responsibilities and duties. All directors have extensive experience spanning a diverse range of activities and industries. The effectiveness of the Board has recently been enhanced with the appointment during the year of Mr Steven Gregg, Mr Kevin Clarke and Mr Paul Masi.

| ASX recommendation / disclosure obligation                   | Company's response  |
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| <b>2.1 Majority of Board should be independent directors</b> | <p>The current Board comprises six directors, of whom four – Mr Steven Gregg, Mr Kevin Clarke, Mr Vic Cottren and Mr Chris Sadler - are independent. The other two members of the Board are the Managing Director/Chief Executive Officer Mr Paul Masi, who holds an executive role, and Mr Tim Boyle who until 9 July 2010 held an executive role, and are not considered independent.</p> |
| <b>2.2 Chair should be an independent director</b>           | <p>Mr Steven Gregg was appointed Chairman on 27 November 2009 and is considered independent.</p> <p>Mr Bill Bessemer retired as Chairman and director on 29 October 2009 and was not considered independent. Mr Chris Sadler, an independent director, was Chairman for the period following Mr Bessemer's retirement until Mr Gregg's appointment.</p>                                     |

**ASX recommendation /  
disclosure obligation**

**Company's response**

**2.3 Roles of Chair and Chief Executive Officer should not be exercised by same individual**

The roles of Chairman and Chief Executive Officer are not held by the same individual.

**2.4 Establish a Nomination Committee**

The Company's Remuneration and Nomination Committee was established on 29 August 2007 with the purpose of ensuring that the Board has an appropriate structure and composition and that the Company attracts and retains the right people by offering competitive remuneration packages. The Committee's responsibilities are governed by its Charter.

On 26 May 2009, the Committee was stood down and its functions assumed by the full Board until such time as the size of the Board increased to justify a formal committee structure. The Committee was reinstated on 14 December 2009 and presently comprises Mr Chris Sadler as Chairman, Mr Steven Gregg, Mr Kevin Clarke and Mr Vic Cottren.

The number of meetings held during the year and attendance by committee members is set out in the Directors' Report.

**2.5 Process for performance evaluation of Board, its committees and individual directors**

A Board and Committee Performance Evaluation Policy was adopted by the Board on 29 September 2009. This policy outlines the process for evaluating the performance of the Board, its committees and individual directors.

It is anticipated that a performance evaluation will be undertaken during 2011 once the existing Board (of which half the Directors have only recently been appointed) has been in office for some period of time.

**2.6 Information on Directors**

Details of each Director's relevant skills, experience and expertise, as well as their independence status and period in office are set out in the Directors' Report. The number of meetings held and attended during the year is also set out in the Directors' Report.

In determining the independence of directors, the Board has had regard to the criteria set out in the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (2nd edition). The Board also has regard to AASB 1031 Materiality to determine levels of materiality. Accordingly, a relationship is presumed immaterial when it generates less than 5%, and presumed material when it generates more than 10%, of group revenue during a 12 month period in the absence of evidence or convincing argument to the contrary. The Board takes into account the strategic value and other aspects, including non-quantitative aspects, of the relationship in question. For the purpose of assessing the materiality of relationships between a non-executive director and Austock (other than as a director), the threshold is set according to the significance of that relationship to the director in the context of their activities as a whole.

**2.6 Independent professional advice**

In fulfilling their duties, each Director and committee member may obtain independent professional advice at the expense of the Company, subject to prior approval of the Chairman, whose approval will not be unreasonably withheld.

**2.6 Procedure for selection and appointment of new directors and re-election of incumbent directors / Board policy for nomination and appointment of directors**

A Selection and Appointment of Non-Executive Directors' Policy was adopted by the Board on 29 September 2009. This policy outlines the procedure for selecting and appointing non-executive directors and for re-appointing incumbent non-executive directors.

**2.6 Availability of information**

A copy of the Remuneration and Nomination Committee Charter, Board and Committee Performance Evaluation Policy and Selection and Appointment of Non-Executive Directors' Policy is available on the Company's website.

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

The Principle requires that the Board should actively promote ethical and responsible decision making.

| <b>ASX recommendation / disclosure obligation</b> | <b>Company's response</b> |
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| <b>3.1 Establish a Code of Conduct</b> | The Board believes that the success of the Company will be enhanced by a strong ethical culture within the organisation. As the Company grows, the need to ensure that ethical standards remain has led the Board to adopt a code of conduct to ensure that all directors, executives and employees act with the utmost integrity and objectivity in their dealings with all people that they come in contact with during their working life. |
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| <b>3.2 Establish a Share Trading Policy</b> | The Board has adopted a Share Trading policy which governs dealing in shares of the Company by staff and directors. This includes restricting dealings in the Company's shares without prior approval and in addition not in the period following year-end or half year-end until release of full year or half year results (as applicable). |
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| <b>3.3 Availability of information</b> | A copy of the Code of Conduct and Share Trading Policy are available on the Company's website. |
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### Principle 4: Safeguard integrity in financial reporting

This Principle requires that the Company have a structure in place to independently verify and safeguard the integrity of its financial reporting.

| <b>ASX recommendation / disclosure obligation</b> | <b>Company's response</b> |
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| <b>4.1 Establish an Audit Committee</b> | The Company's Audit Committee was established on 29 August 2007 to review and monitor the Company's financial affairs and has operated since that time. The current members of the Committee are Mr Vic Cottren (Chairman), Mr Chris Sadler and Mr Warner Bastian, all of whom are considered independent. Mr Bastian was appointed a member of the Committee on 6 July 2009. He is not a member of the Board but is considered to be independent and to possess a level of technical expertise appropriate for audit committee membership. Mr Bill Bessemer resigned as a member on 28 July 2009. |
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| <b>4.2 Structure of Audit Committee</b> | The Board notes that as the Company was not included in the top 300 of the S&P All Ordinaries Index at the beginning of the financial year it is not required to follow the recommendations on the composition, operation and responsibilities of an audit committee. During the year the Committee had, at all times, at least 3 members, the majority of whom were independent. However, not all members were non-executive directors. Mr Bastian is a member of the Committee but is not a director of the Company. In addition, Mr Bill Bessemer, a former executive director of the Company, was a member of the Committee until 28 July 2009. |
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| <b>4.3 Formal Charter</b> | The Audit Committee has a formal charter which sets out its responsibilities. |
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| <b>4.4 Information on Audit Committee members</b> | The names and qualifications of the Audit Committee members and details of meetings held and attended during the year are set out in the Directors' Report. |
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| <b>4.4 Selection and appointment of external auditor and for rotation of external audit engagement partner</b> | The Board is responsible for appointing the external auditor, subject to confirmation by shareholders at the Company's annual general meeting. The Audit Committee is directly responsible for making recommendations to the Board on the appointment, termination and oversight of the external auditor. In selecting an auditor, the Committee implements a selection process and makes a recommendation to the Board based on their assessment of the potential external auditor. The assessment takes into account a number of key criteria, including audit approach and methodology, internal quality control procedures, resources, key personnel and cost. The Audit Committee is required to annually review the external auditor's performance and independence. In line with current professional standards, the external auditor is required to rotate Austock audit and review partners at least once every 5 years. |
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| <b>4.4 Availability of information</b> | A copy of the Audit Committee Charter is available on the Company's website. Information on the procedures for the selection and appointment of the external auditor and for the rotation of external audit engagement partners will be made available on the website shortly. |
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## Principle 5: Make timely and balanced disclosure

The Principle requires the Company to promote timely and balanced disclosure of all material aspects concerning the Company.

| <b>ASX recommendation / disclosure obligation</b> | <b>Company's response</b>  |
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| <b>5.1 Continuous Disclosure Policy</b>           | A Continuous Disclosure Policy has been adopted by the Board. This policy reflects the Board's commitment to ensuring that information that is expected to have a material effect on the price or value of the Company's securities is immediately notified to the ASX for dissemination to the market in accordance with the continuous disclosure requirements of the Corporations Act 2001 and ASX Listing Rules. |
| <b>5.2 Availability of information</b>            | A copy of the Continuous Disclosure Policy is available on the Company's website.  |

## Principle 6: Respect the rights of shareholders

The Principle requires the Company to respect the rights of shareholders and facilitate the exercise of those rights.

| <b>ASX recommendation / disclosure obligation</b> | <b>Company's response</b>   |
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| <b>6.1 Communications Policy</b>                  | <p>A Communications Policy has been adopted by the Board, reflecting its policy that shareholders be informed of all significant developments affecting the Company's affairs.</p> <p>Information is communicated by:</p> <ul style="list-style-type: none"><li>• dispatching annual reports to shareholders who request to receive a copy; and</li><li>• maintaining a dedicated investor relations section on the Company's website to which it posts copies of all ASX announcements, Annual Reports, Half Yearly Reports, details of corporate governance practices, presentations to shareholders and other information of interest to shareholders.</li></ul> <p>Shareholders are encouraged to attend the annual general meeting of the Company at which the external auditor (having been requested by the Company to attend) will be available to answer shareholder questions about the conduct of the audit and the preparation and content of the Independent Audit Report.</p> |
| <b>6.2 Availability of information</b>            | A copy of the Communications Policy is available on the Company's website.  |

## Principle 7: Recognise and manage risk

This Principle requires the Company to establish a sound system of risk oversight and management and internal control.

| <b>ASX recommendation / disclosure obligation</b>   | <b>Company's response</b>  |
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| <b>7.1 Establish policies for the oversight and management of material business risks</b>   | <p>The Board has adopted a Risk Management Plan, developed in accordance with the Australian Standard on Risk Management (AS/NZS 4360:2004). The policy reflects the Board's commitment to identifying, monitoring and mitigating risks as well as capturing opportunities.</p> <p>Since 30 June 2010, the Company has begun work on implementing a new Risk Management Program which complies with the requirements of the new Australian Standard on Risk Management (AS/NZ ISO 31000). It is expected that implementation of the new program will be completed during the 2010/2011 financial year.</p>   |
| <b>7.2 Design and implement a risk management and internal control system to manage material business risks and report thereon to Board</b> | <p>Day to day responsibility for risk management has been delegated to Management, with review occurring at both Audit Committee and Board level. In accordance with the Risk Management Plan, Management undertakes an exercise of identifying and prioritising its material business risks. These risks are documented in a Risk Register and, where the level of risk is considered to be above the desired level, an action plan is developed to address and mitigate the risk. Management's risk management process is reviewed by an external consultant every two years – the last review was commenced in early 2010 and is yet to be finalised.</p> <p>Risks, the effectiveness of mitigation strategies and the overall management system are regularly reviewed by Management to ensure changing circumstances do not alter the risk priorities. Management reports to the Board on the effectiveness of the Company's management of its material business risks.</p> |

**ASX recommendation / disclosure obligation****Company's response****7.3 Assurance from Chief Executive Officer and Chief Financial Officer**

The Managing Director/Chief Executive Officer and Chief Financial Officer have certified in writing to the Board that the declaration provided in accordance with section 295A of the Corporations Act 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.

**7.4 Availability of information**

A copy of the Risk Management Plan is available on the Company's website.

**Principle 8: Remunerate fairly and responsibly**

This Principle requires that the Company ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

**ASX recommendation / disclosure obligation****Company's response****8.1 Establish a Remuneration Committee**

The Company's Remuneration and Nomination Committee was established on 29 August 2007 to assist the Board with developing sound remuneration policies and practices. The Committee's responsibilities are governed by its Charter.

On 26 May 2009, the Committee was stood down and its functions assumed by the full Board until such time as the size of the Board increased to justify a formal committee structure. The Committee was reinstated on 14 December 2009 and presently comprises Mr Chris Sadler as Chairman, Mr Steven Gregg, Mr Kevin Clarke and Mr Vic Cottren.

**8.2 Distinction between structure of non-executive directors' remuneration and remuneration of directors and senior executives**

The Company distinguishes the structure of non-executive directors' remuneration from that of executive directors and senior executives. Non-executive directors are remunerated by way of fees in the form of cash, non-cash benefits and superannuation contributions. They do not receive options or bonus payments from the Company, although they may receive shares. Non-executive directors do not normally participate in schemes designed solely for the remuneration of executives. However, an exception has been made in the case of the non-executive Chairman, Mr Steven Gregg, who participates in the Company's employee share plan. The Board decided to make this exception to give Mr Gregg a significant parcel of shares in the Company so as to align his personal financial interests with those of shareholders.

Executive directors and senior executives' packages generally comprise fixed, performance-based and equity-based remuneration components.

A Remuneration Report, which sets out information about the remuneration of the Company's directors and senior executives for the financial year, is included in the Directors' Report.

**8.3 Information on Remuneration Committee members**

The names and qualifications of the Remuneration and Nomination Committee members and details of meetings held and attended during the year are set out in the Directors' Report.

**8.3 Schemes for retirement benefits**

The Company does not pay retirement benefits, other than superannuation, for its non-executive directors.

**8.3 Policy on prohibiting transactions in associated products which limit the economic risk of participating in unvested entitlements under equity based remuneration schemes**

The Company's Share Trading Policy prohibits directors from entering into transactions that are designed or intended to hedge their exposure to a security in the Company that is subject to retention arrangements and/or unvested options.

**8.3 Availability of information**

A copy of the Remuneration and Nomination Committee Charter and Share Trading Policy is available on the Company's website.