

## **COFFEY INTERNATIONAL LIMITED**

### **CORPORATE GOVERNANCE STATEMENT**

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#### **1 COFFEY GOVERNANCE FRAMEWORK**

##### **1.1 Vision**

Global specialists solving emerging challenges to improve the lives of communities.

##### **1.2 Promise**

We share your challenge and passionately deliver smarter solutions.

##### **1.3 Values and behaviours**

The Company seeks to demonstrate the following values and behaviours

- Owning and delivering our vision, promise and behaviours
- Be healthy and safe
- Respect for all
- Act with integrity
- Create the space for great teamwork and innovation
- Demonstrate 'Breakthrough Leadership'
- Think business development – stand in the market
- Appreciating 'the Deal'
- Passion for and from our people
- Value clients and contacts.

##### **1.4 Company Constitution**

The Company operates under its Constitution which is reviewed regularly against changes in the law and best corporate practice. Any changes considered desirable by the Board are placed before the shareholders in general meeting. No changes were made in the year ended 30 June 2009.

##### **1.5 Coffey Approach to Corporate Governance**

As a listed public company, Coffey International Limited (the Company) has adopted an approach to corporate governance based on the above set of values and behaviours that underpin its everyday activities, ensure transparency and fair dealing, and protect stakeholder interests.

In formulating its system of policies and practices which contribute to proper direction and management the Company has taken into account the revised principles and guidelines for corporate governance issued by the Australian Stock Exchange. The Company's Policy Statement on Corporate Governance Principles and Practice, first adopted by the Board in June, 2004, was reviewed and updated during the year.

A number of improvements that will further strengthen the Company's commitment to corporate governance and the protection of shareholder value and community interests were identified for implementation in the 2010 financial year. The Board of Directors and Company senior management have established a project team to implement enhanced corporate governance, risk management and community engagement initiative for 2009/2010 that will be reported in 2010.

## 1.6 Coffey Approach to Corporate Governance (continued)

The table below lists the revised recommendations made by the ASX Corporate Governance Council and indicates where the Company's relevant disclosure is located in this report. Coffey considers that its current governance framework is consistent with ASX Recommendations.

Recommendation	Summary	Cross-Reference to Section
1.1	Functions of Board & Senior Executives	2
1.2	Senior Executive Performance Evaluation	5.3
2.1	Independence of the Board	3.2, 3.3
2.2	Independence of the Chair	3.1,3.3,3.5, 3.6
2.3	Role of Chair and CEO	2, 3.6
2.4	Nominations Committee	4.4
2.5	Evaluation of the Board, Committees and Directors	3.1, 5.2
3.1	Coffey Code of Conduct	7.1
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8.2	Director & Senior Executive remuneration	4.2.1 4.2.2

## **2 FUNCTIONS OF THE COFFEY BOARD AND SENIOR MANAGEMENT**

*Lay solid foundations for management and oversight (ASX Principle1)*

### **2.1 The Board of Directors**

The Board operates in accordance with the principles set out in its charter, which was reviewed and updated during the year. The charter details the Board's functions and powers, together with the matters reserved to the Board for its own decision.

### **2.2 Board Responsibilities**

The responsibilities of the Board include:

- contributing to the development, and conducting the final review and approval of corporate strategy
- reviewing and approving business plans, the annual budget and financial objectives and plans including the available resources, major capital expenditure initiatives, acquisitions and divestments required to meet the business plans and budgets
- overseeing and monitoring:
  - organisational performance using key indicators agreed with management
  - performance toward the achievement of the Group's strategic goals and objectives
  - compliance with the Company's code of conduct
  - progress of significant corporate projects including any acquisitions or divestments
  - framework and application of effective management processes
- monitoring financial performance including approval of the annual and half-year financial reports and liaison with the Company's external auditors
- appointment, performance assessment and, if necessary, removal and replacement of the Managing Director
- ensuring that clearly defined delegations of powers are in place for management to carry out its responsibilities
- ratifying the appointment and/or removal and replacement of and contributing to the performance assessment for members of the senior management team including the Chief Financial Officer (CFO) and the Company Secretary
- approving major corporate initiatives
- enhancing and protecting the reputation of the Group
- ensuring the principal risks facing the Group, including those associated with its legal compliance obligations, have been identified and appropriate and adequate control, monitoring, accountability and reporting mechanisms are in place
- ensuring management have appropriate policies in place to monitor the statutory responsibilities of directors, such as Occupational Health and Safety (OH&S) and taxation
- ensuring that appropriate policies, and planning and monitoring systems are in place for human resource management, environmental, and occupational health and safety
- monitoring changes in relevant accounting policies and practices and approving their adoption
- making recommendations and reporting to shareholders and protecting their interests
- reviewing its own performance, including processes and composition.

## **2.3 Senior Management**

Senior management of the Company include the Managing Director and his direct reports - namely those executives included as Key Management Personnel. They are delegated by the Managing Director with authority to implement decisions and directives of the Managing Director or the Board with respect to management of the company in accordance with governance requirements.

## **2.4 Responsibilities**

The responsibilities of senior management include:

- strategic and corporate development
- business development, including growth strategy and client relationship management
- managing risk and return
- service delivery
- recruiting, developing, motivating and rewarding staff
- building and nurturing the Company culture
- managing and developing adequate policies, systems and procedures
- managing reputation and branding
- monitoring and managing financial and non financial performance
- managing stakeholder relationships.

## **3 THE COFFEY BOARD**

*Structure the board to add value (ASX Recommendations 2.1, 2.2, 2.3, 2.5 )*

### **3.1 Board Composition**

The Board has adopted the following principles in respect of Board composition:

- the Board is to be comprised of both executive and independent non-executive directors with the non-executive directors able to exercise a majority of the votes. Non-executive Directors bring a fresh perspective to the Board's consideration of strategic, risk and performance matters and are best placed to exercise independent judgement and review and constructively challenge the performance of management;
- in recognition of the importance of independent views and the Board's role in supervising the activities of management, the Chairman is an independent non-executive director and all directors are required to bring independent judgement to bear in their Board decision-making;
- the Chairman is elected by the full Board and is required to meet regularly with the Managing Director;
- the Company is to maintain a Board with a balance and mix of directors on the Board from different backgrounds and complementary competencies, skills and experience;
- the Board is required to undertake an annual Board performance review and consider the appropriate balance and mix of skills required by the Board to maximise its effectiveness and its contribution to the Group; and
- directors are not required to hold shares in the Company but are encouraged to do so.

## 3.2 Board Members

Details of the members of the Board, their experience, expertise, qualifications, term of office and independent status are set out on the Company website and in the directors' report under the heading "Information on Directors". At the date of signing the Directors' Report there are three Non-executive Directors, all of whom are considered by the Board to be independent under the principles and explanation set out below, and two executive directors. There was no change to the status of any director during the year.

In addition the Board seeks to ensure that:

- at any point in time, its membership represents an appropriate balance and mix between directors with experience and knowledge of the Group and directors with an external or fresh perspective and the ability to add value to the Board's deliberations on current and emerging issues
- the size of the Board is conducive to effective discussion and efficient decision making.

## 3.3 Director Independence

The Board regularly assesses the independence of each director. For this purpose specific principles in relation to a Non-executive Directors' independence have been adopted. In applying these principles, the Board understands that Directors must be independent of mind as well as appearance. At all times a Director must display a state of mind that allows expression of opinion free of any influences or conflicts which may compromise judgement or decision making. Behaviours expected of each independent Non-executive Director include integrity, objectivity and displaying professional scepticism. Additionally, a Non-executive Director must appear to be independent by avoiding circumstances so significant that an informed reasonable third party would conclude the above behaviours had been compromised.

The underlying guidance for a Non-executive Director is that they must be free of any material business or other material relationship that could interfere with the exercise of independent and responsible judgement by the Director.

Accordingly, the following are the principles applied by which the Board examines the significance of circumstances which may lead to breaching independence. The Director:

- must not be a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- must not within the last three years, have been employed in an executive capacity by the Company or a controlled entity, or been a director after ceasing to hold any such employment;
- must not within the last three years, have been a principal of a material professional adviser or a material consultant to the Company or a controlled entity, or an employee materially associated with the service provided;
- must not be a material supplier or customer of the Company or a controlled entity, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- must not have a material contractual relationship with the Company or a controlled entity other than as a director of the Company; and
- must not be on the Board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act independently in the best interests of the Company.

Director's are required to disclose any material contract or relationship in accordance with the Corporations Act, in addition to conducting themselves to the highest standard in accordance with the Company's Code of Conduct and other Company principles of good corporate governance.

### **3.3.1 Materiality**

The Board has determined that independence may be compromised where relationships giving rise to influences or conflicts exist.

The principles adopted by the Board to assess independence use an expression of materiality. The Board applies the expression in a quantitative sense of materiality thresholds as well as a qualitative or 'significance' sense.

Directors may from time to time have dealings or be involved with other companies or relationships carrying on business with or providing services to the Company. Where a Director is involved in any relationship that may be reasonably perceived as material or significant if knowledge of it impacts the shareholders' understanding of the director's performance, the Board takes into account the principles in 3.3 above and the following specific matters in determining whether the relationship is material or significant to the extent the Director's independence is impeached.

- the specific disclosures made by each director;
- the extent of 'materiality' according to a quantitative test, whereby expenditure by the Company is considered material if equal to the lesser of \$500,000 or 10% of expenditure by the Group on the same category of supplier purchases or customer sales;
- the proximity of the director to any decision made by the Company to enter into a relationship or business dealing that requires disclosure in accordance with this section; and
- the potential for interference of the director's free exercise of an independent mind and responsible judgement in accordance with good corporate governance and having regard to all the circumstances.

The Board regularly assesses the independence of all Non-executive Directors in accordance with the principles set out above and determined that each of the Company's Non-executive Directors is an independent Director.

Where a Director has dealings with or is involved in other companies or relationships to which this section applies, such dealings are disclosed publicly in the 'conflict of interest' notes to the Annual Financial Report in accordance with law.

In accordance with the Company's shareholder communications policy, any questions regarding director independence and materiality may be addressed to the Company's representative in accordance with section 9 of this statement.

### **3.3.2 Family relationships etc.**

Directors' interests via family companies or through close family relationships must be disclosed and treated by the Board in accordance with section 3.3 above, as the existence of these relationships may need to be assessed in respect of Director independence.

## **3.4 Non-executive Directors**

The Non-executive Directors met once during the year, in a scheduled session without the presence of management, to discuss the operation of the Board as a whole and a range of other matters. Relevant matters arising from these meetings were shared and discussed with the full Board. From time to time Non-executive Directors also meet informally to discuss topical matters related to the company and its industry.

### **3.5 Term of Office**

Directors are not appointed for any specific term. The Company's Constitution specifies that one third of all directors (with the exception of the Managing Director) must retire from office at each annual general meeting (AGM). Where eligible, a director may stand for re-election at the next AGM. A Director of or over the age of 72 years may be re-appointed pursuant to a resolution of the Company in accordance with the Corporations Law.

Traditional thinking on corporate governance offers the view that a director's length of service may be perceived to impact independence. In the current year, length of service applies only to the Chairman. The Board recognises the circumstances of Mr William's service and has formed the view that, on its own, his length of service has not interfered with his ability to execute his role as a Non-executive Director with an independent mind. Mr Williams remains independent and continues to significantly contribute with effectiveness because of his personal characteristics of integrity, objectivity and professionalism, and the breadth and depth of industry and company knowledge he brings to share with the Board. However, to avoid any potential concerns in this regard, the Board requires any Director with ten or more years of service as a director to offer himself for re-election every year and by doing so the Board provides shareholders with the annual opportunity to consider the degree to which the director is making a significant contribution to the Company and make a balanced assessment of the director's actual and perceived independence.

### **3.6 Chairman's responsibilities & Managing Director**

The Chairman is responsible for leading the Board. He is responsible for ensuring that Directors are properly briefed for meetings, that Board activities are organised and efficiently conducted, and for ensuring that sufficient time is allocated and devoted for the consideration of items before the Board.

The Managing Director is responsible for implementing Group strategies and policies and for overall management and profit performance of the Group. The Managing Director manages the organisation in accordance with the strategy, plans and policies approved by the Board to achieve the Company's vision and short, medium and long term goals.

#### **3.6.1 Managing Director and Board Members Division of responsibility**

The roles of Chairman and Managing Director are not exercised by the same individual and the division of responsibilities between the Chairman and the Managing Director have been agreed by the Board.

The Board Charter clearly sets out the matters reserved for Board decision.

### **3.7 Commitments**

The Board normally holds twelve scheduled Board meetings during the year as well as an additional corporate strategy workshop. Many of these meetings are held at operational sites of the Company and at these times the directors usually meet with local management and other stakeholders. Additional Board meetings are held at short notice when required to consider urgent matters.

Non-executive Directors are expected to spend a minimum of thirty days a year preparing for and attending Board and committee meetings and associated activities. Actual time spent is considerably more.

The number of meetings of the Company's Board of directors and of each Board committee held during the year ended 30 June 2009, and the number of meetings attended by each director is disclosed in the Directors' report on page 8.

### 3.7.1 Cross Directorships

It is the Company's practice to allow its executive Directors to accept appointments outside the Company subject to prior written approval of the Board which will consider conflicts, time commitments and other matters considered relevant by the Board. No appointments of this nature were accepted during the year ended 30 June 2009 and to the date of this report.

Cross-directorships accepted by Non-executive Directors must be disclosed in accordance with section 3.3 above and the Board must consider the extent to which, if any, any cross-directorships may be deemed material to the free exercise of a Director's independent responsible judgement.

The commitments of Non-executive Directors are also reviewed each year as part of the annual performance assessment. Prior to appointment or being submitted for re-election each Non-executive Director is required to specifically acknowledge that they have and will continue to have the time available to discharge their responsibilities to the Company.

Further information on Director's other appointments are set out in the Directors Report on pages 5 to 7.

### 3.8 Conflicts of Interest

Directors are expected to inform the Board of any potential conflicts of interest. At the commencement of each meeting of the Board, a director has the opportunity to appraise the Board of any matter that may give rise to a conflict of interest.

Entities connected with Mr S R Williams had business dealings with the Group during the year, as described in note 28 to the financial statements. Mr S R Williams declared his interest in those dealings to the Company and took no part in decisions relating to them or any preceding discussions. The Board, having considered the business dealings disclosed by Mr S R Williams in accordance with section 3.3 above, has determined for the following reasons that these business dealings do not interfere with effective performance of the responsibilities of the Chair.

- The Board has reviewed the relationships affecting independent status under *ASX Principle 2*, and has formed the view that Mr Williams does not fall into any of the categories. For that purpose the Board has considered 'materiality' as disclosed in 3.3.1 above.
- The Company uses a panel of legal advisors. Local management are not wholly restricted to the panel and may choose an advisor not on the panel where that is efficacious;
- Mr Williams provides no advice or services to the Group of the type provided to the market by the firm of which he is a partner;
- Mr Williams takes no part in management decisions on the choice for any particular brief of a firm from the panel;
- the materiality, by way of value, nature or significance, of work undertaken for the Company by the firm of which he is a partner; see Note 28 of the Financial Statements;
- the limitations in scope and depth of corporate legal services used by the Company and offered by the firm of which he is a partner;
- Company dealings with the firm of which he is a partner are at arm's length and no more favourable than those with other legal advisors; and
- where a Non-executive Director requires independent professional advice for the benefit of the Company and pursuant to their terms of appointment, the Board prohibits use of the firm of which Mr Williams is a partner.

In accordance with the Company's shareholder communications policy and section 3.3 above, any questions regarding conflicts of interest may be addressed to the Company's representative in accordance with section 9 of this statement.

### **3.9 Independent professional advice**

Directors and Board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Company's expense. Prior written approval of the Chairman is required, but this will not be unreasonably withheld.

#### **3.9.1 Access to Information**

Directors are provided direct access at any time to members of the Company's senior management and are encouraged to request relevant information necessary to the Board's deliberations and responsibilities. If necessary the Company Secretary is available to facilitate access to information and holds responsibility for the regular provision of management information to the Board.

Information is provided to the Board according to a schedule determined between the Company Secretary and the Board and in a form approved by the Board. The Company Secretary has responsibility to ensure all relevant information required or requested by the Board is made available in a timely manner and in the approved form.

A Deed of Access, Insurance and Indemnity has been executed between the Company and in favour of each Director. The operation of such a deed is for the benefit of the Company as well as each Director. It clarifies and confirms the basis on which a Director can access Company information necessary to carry out his duties as a Director. Additionally, the deed strengthens the environment in which the Director acts in the best interests of the Company.

## **4 BOARD COMMITTEES**

### **4.1 Board Committees**

The Board has established four committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the Board are –

- Remuneration Committee
- Audit Committee
- Risk Management Committee
- Nomination Committee.

The Board believes that the current composition of the committees is appropriate, having regard to the size, structure and complexity of the Company's operations.

Each committee has its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. These charters are reviewed on an annual basis. All matters determined by committees are submitted as recommendations to the full Board for its consideration and decision.

Minutes of committee meetings are completed within 30 days, entered into the minute book and tabled at the immediately subsequent Board meeting. Additional requirements for specific reporting by the committees to the Board are addressed in the charter of the individual committees.

## 4.2 Remuneration Committee

*Remunerate fairly and responsibly* (ASX Recommendations , 8.1, 8.2)

The current members of the Remuneration Committee are as follows:

- S R Williams (Non-executive Director and Chairman)
- S A Black (Non-executive Director)
- R J Olds (Managing Director)

The secretary of the Committee is the Company Secretary

Directors and other persons who are not members of the Committee may be invited at the discretion of the Chairman of the Committee to attend and participate.

Details of the directors' qualifications, experience and attendance at remuneration committee meetings are set out in the Directors' report on pages 5 to 8.

The full Board conducts an annual review of the Remuneration Committee and confirms that the Remuneration Committee has appropriate expertise and is of sufficient size, composition and skill to determine fair and responsible remuneration for the Company. The Board considers it appropriate for Mr. Olds to be part of the Remuneration Committee. Mr. Olds does not participate in any way in setting the remuneration of the Managing Director/CEO operational position within the Company, remuneration and performance benchmarks for this position being determined by the Board on the recommendation of the independent Non-executive Directors on the Remuneration Committee.

The Remuneration Committee operates in accordance with its charter. It advises the Board on remuneration policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for executive directors and other senior executives. The Company's remuneration practices are disclosed in greater detail in the remuneration report included in the directors' report on pages 9 to 28.

Committee members receive briefings from external remuneration experts on developments on remuneration and related matters as required.

Each member of the senior executive team has an employment contract covering a range of matters including their duties, rights, responsibilities and any entitlements on termination. The standard contract refers to a specific formal job description. Service Agreements for Key management Personnel are covered in Section C of the Remuneration Report.

Executive remuneration and other terms of employment are reviewed annually by the Remuneration Committee having regard to personal and corporate performance, contribution to long term growth and, relevant comparative information from industry surveys.

The Remuneration Committee's terms of reference include responsibility for reviewing any transactions between the organisation and the directors, or any interest associated with the directors, to ensure the structure and the terms of the transaction are in compliance with the *Corporations Act 2001* and are appropriately disclosed.

### 4.2.1 Non-executive and Executive Director Remuneration

Further information on directors' remuneration is set out in the directors' report and note 28 to the financial statements.

### 4.2.2 Senior Executive Remuneration

The Company, Board and Remuneration Committee recognise that remuneration is an important factor in attracting, motivating and retaining talented employees, in conjunction with other elements of the

Company's approach to people management to enable employees to fully contribute to the plan of putting together the pieces of a global company, they are being provided with the resources and opportunities to develop their skills and knowledge to enable them to reach their full potential.

The remuneration policy is aligned with the Company's financial and strategic business objectives and recognises that people are the major contributor to sustained improvements in performance and transformation of Coffey to a global consulting organisation.

The Company's remuneration policy is designed to ensure:

- remuneration is market competitive to attract, retain and reward key staff for performance;
- appropriate performance measures are applied to both short and long term "at risk" remuneration;
- short term performance is linked to both financial and non-financial performance measures and outstanding achievements may also be recognised; and
- long term performance is measured through the creation of value for shareholders.

The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- Competitiveness and reasonableness;
- Acceptability to shareholders;
- Performance linkage/alignment of executive compensation;
- Transparency; and
- Responsible capital management.

Company protection and employment stability is provided through pre-established employment agreements limiting the amount of termination payments and providing for restrictive covenants on any future employment by competitors.

Additional information is set out in the directors' and remuneration reports and note 28 to the financial statements.

### **4.3 Audit Committee**

*Safeguard integrity in financial reporting* (ASX Recommendations 4,1, 4.2, 4.3)

The current members of the Audit Committee are as follows:

- S A Black (Non-executive Director and Chairman)
- S R Williams (Non-executive Director)
- C E Jamieson (Non-executive Director)

The Company Auditor – Messrs KPMG are issued a standing invitation to attend and participate in meetings.

The Managing Director, Chief Financial Officer and the Group Financial Controller are issued a standing invitation to attend and participate in meetings.

The secretary of the Committee is the Company Secretary.

Details of the Directors' qualifications, expertise, experience and attendance at audit committee meetings are set out in the Directors' Report on pages 5 to 8 and the Company website, [www.coffey.com](http://www.coffey.com).

The full Board conducts an annual review of the Audit Committee and confirms that the Audit Committee has appropriate financial expertise, is of sufficient size and independence and all members have the necessary financial competence and working knowledge of the industries in which the Group operates.

The Audit Committee operates in accordance with a charter. The main responsibilities of the committee are to:

- review, assess and approve the annual report, the half-year financial report and all other financial information published by the Company or released to the Australian Stock Exchange (ASX);
- assist the Board in reviewing the effectiveness of the Company's internal control environment covering:
  - reliability of financial reporting
  - effectiveness and efficiency of operations
  - compliance with applicable laws and regulations;
- recommend to the Board the appointment, removal and remuneration of the external auditor, and review the terms of their engagement, the scope and quality of the audit and assess their performance;
- consider the independence and competence of the external auditor on an ongoing basis;
- review and approve the level of non-audit services provided by the external auditor and ensure it does not adversely impact on auditor independence;
- review and monitor related party transactions and assess their propriety;
- oversee the Company's internal audit process;
- report to the Board on matters relevant to the committee's role and responsibilities; and
- review the Company's accounting policies and make recommendations to the Board.

In fulfilling its responsibilities, the Audit Committee:

- receives regular reports from management, the external and internal auditor;
- at each meeting offers to meet with the external auditor privately without management;
- requires, as part of the certifications to meet reporting requirements of Principle 7 and section 295A of the Corporations Act 2001, the Managing Director and CFO to state in writing to the Board that the financial records of the Company have been properly maintained, that the financial statements and notes thereto i) comply with Australian Accounting Standards in all material respects, ii) present a true and fair view, in all material respects, of the Company's and Group's financial position and performance, iii) are in accordance with the Corporations Act 2001, and that there are reasonable grounds to believe that the Company and Group will be able to pay its debts as and when they become due and payable;
- requires the Chief Executive Officer and Finance Manager of each operating division to make supporting certifications to the Chief Financial Officer as those required by the Managing Director and CFO of the Company;
- reviews any significant disagreements between the external auditor and management, irrespective of whether they have been resolved; and
- provides the external auditor with a clear line of direct communication at any time to either the Chairman of the Audit Committee or the Chairman of the Board.

The Audit Committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

#### **4.3.1 External Auditors**

The Company and Audit Committee policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs.

In view of the introduction of a five year rotation requirement under CLERP 9, it is the current external auditor's policy to rotate audit engagement partners on listed companies at least every five years. The current audit engagement partner was introduced for the audit for the year ended 30 June 2008, and in accordance with the transitional provisions of the new requirement, will rotate off the engagement at the conclusion of the 30 June 2012 audit.

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in note 29 to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the Audit Committee.

The external auditor is required to submit a Statement of Independence to the Audit Committee at least once per year. As part of that submission, the external auditor lists the nature and value of non-audit services provided to the Company. The list of services is reviewed by the Audit Committee as part of its assessment of external auditor independence. At no time does any audit partner or staff act in a managerial or decision making capacity, be involved in transactions in any way, participate in approval or authorisation processes. The provision of any non audit service must be considered with reference to the schedule of prohibited services. The schedule protects the independence of the external auditor for the benefit of the Company.

The external auditor is required to attend the AGM and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

#### **4.4 Nomination Committee**

*Structure the board to add value (ASX Recommendation 2.4)*

In the year ending 30 June 2009 the Board established a Nomination Committee. The Committee responsibilities had previously been reserved to the full Board of the Company for its own decision.

The current members of the Nominations Committee are as follows:

- S R Williams (Non-executive Director Chairman)
- S A Black (Non-executive Director)
- C E Jamieson (Non-executive Director)

Details of the directors' qualifications, expertise, experience and attendance at committee meetings are set out in the Directors' Report on pages 5 to 8.

The Nomination Committee operates in accordance with a charter. The main responsibilities of the committee are to consider and make recommendation to the Board concerning:

- The size and composition of the Board, including;
  - mix of executive and independent non-executive directors
  - skills, experience
  - selection criteria for nomination of candidates of non-executive directors, and
  - the time commitment and contribution required by non-executive directors;
- Succession planning for Non-executive Directors;
- The identification and nomination of individuals qualified to be become Board members;
- The terms and conditions on which Non-executive Directors are appointed and hold office;
- The methodology for reviewing the performance of the Board, the Chairman and individual Non-executive Directors; and
- Non-executive Director induction program.

The Committee has the right to seek the assistance of appropriate external advisors that it considers necessary in order to fulfil its duties.

#### **4.4.1 Appointment of Directors**

Previously, when the possible need for a new Director was identified or an existing Director required to stand for re-election, the full Board reviewed the current range of competencies, skills, experience and expertise on the Board, and identified its needs. Where new or additional skill sets are required the Committee prepares a short-list of candidates for the Board's consideration. Where necessary, advice was sought from independent search consultants. This process is now conducted by the Nomination Committee.

The full Board appoints the most suitable candidate who must stand for election at the next AGM of the Company. Reappointment of existing Directors is not automatic and is contingent on past performance and contribution to the Company along with their expected performance and contribution having regard to the Company's size, structure and complexity in the future.

New Directors are provided with a letter of appointment setting out their responsibilities, rights and the terms and conditions of their employment. Appointment of a Director is for no fixed term. All new Directors participate in a comprehensive, formal induction program which covers financial, strategic, operations and risk management issues as well as expectations for Director behaviour.

The Board has resolved that notices of meeting for the election of Directors will fully comply with the ASX Corporate Governance Council's corporate governance principles and recommendations.

## **4.5 Risk Management Committee**

*Recognise and manage risk (ASX Recommendations 7.1, 7.2,7.3)*

During the year the Board established a Risk Management Committee. The responsibilities of the Committee were previously reserved to the full Board of the Company for its own decision on risk matters.

The current members of the Risk Management Committee are as follows:

- S R Williams (Non-executive Director and Chairman)
- C E Jamieson (Non-executive Director)
- R J Olds (Managing Director)
- U B Meyerhans (Chief Financial Officer)

The Chairman of the Audit Committee, Group Executive Operations and Group Executive Systems are issued a standing invitation to attend and participate in meetings. The Risk Management Committee works closely with the Audit Committee with respect to financial performance risk.

The secretary of the Committee is the Company Secretary.

Details of the members' qualifications, expertise, experience and attendance at committee meetings are set out in the Directors' Report on pages 5 to 8 and on the Company website, [www.Coffey.com](http://www.Coffey.com).

The full Board reviewed the composition of the Risk Management Committee and ensures that the Risk Management Committee has appropriate risk management expertise and is of sufficient size to responsibly manage the Company's risk framework.

The Risk Management Committee operates in accordance with a charter. The main responsibilities of the committee are to:

- Review the Company's Risk Management Policy Statement and the effectiveness of the Risk Management System within the Company and be assured that material risks are identified, prioritised and appropriate risk management processes are in place, including the formulation and subsequent updating of appropriate Company policies;
- Monitor changes anticipated for the economic and business environment, including consideration of emerging trends and other factors relevant to the Company's risk profile;
- Review actual and potential material risk exposures;
- Monitor the implementation of business unit and corporate risk management plans;
- Review insurance and other risk transference arrangements, and consider whether appropriate coverage is in place;
- Review the business contingency planning process within the Company and be assured that material risks are identified and appropriate contingency plans are in place;
- Monitor the effectiveness of the formal and informal communication of the strategies, frameworks, policies and procedures throughout the Company;
- Review the performance of the Risk Management functions and recommend to the Board changes to improve risk control;
- Monitor the effectiveness of Company policies and practices that relate to compliance with laws, regulations and applicable standards. This shall include all matters material to the operation of the business;
- Conduct or authorize investigations into any matters within the committee's charter;
- Require the Managing Director, the Chief Financial Officer, and Group Executive Systems to state in writing to the Board that the Company's Risk Management report presents a true and fair view, in all material respects, of the Company's system of risk oversight and management (in line with Recommendation 7.2 of the revised Corporate Governance Guidelines of August 2007);
- Require the Managing Director and Chief Financial Officer, complimentary to the certification required by the Audit Committee in respect of the financial statements and notes thereto referred to in 4.3 above, to certify the following in regard to the risk management and internal control systems for the current reporting period:
  - i) The integrity of the financial statements and notes thereto is founded on a system of risk management and internal control which, in all material respects, implements the policies adopted by the Board of Directors;

- ii) The risk management and internal control systems to the extent they relate to financial reporting are operating effectively, in all material respects, based on the risk management system adopted by the Company; and
- iii) Nothing has come to their attention since balance date that would indicate any material change to the statements in i) and ii).

The Committee does not have responsibility for the matters that are set out in the Charter of the Board Audit Committee. The Chairman of the Committee must however liaise with Chairman of the Audit Committee and if appropriate, the Chairman of the Board on an ongoing basis to ensure that no material matter is inadvertently overlooked by the three bodies.

#### **4.5.1 Company Approach to Risk Management**

The Board is responsible for ensuring there are adequate policies in relation to overseeing and managing risk and internal control systems. In summary, the Company policies are designed to ensure strategic, operational, legal, reputation and financial risks are identified, assessed, addressed and monitored to enable achievement of the Group's business objectives.

#### **4.5.2 Risk Framework**

The Board recognises that risk management enables the Company to make informed and better business decisions by taking account of the uncertainty implicit in our business and the possibility of future events occurring. Managing risk appropriately enhances management's ability to deliver on business objectives and improve business performance.

The Board is responsible for the oversight of the Company's risk management and control framework, and has established a Risk Management Committee tasked with overseeing the risk management policy implementation. The Risk Management Committee assists the Board by reviewing and monitoring the Company's material risk exposure and risk management and control framework. The Audit Committee assists the Board in fulfilling its responsibilities in this regard by reviewing and monitoring the financial and reporting aspects of the Group's risk management and control framework. Risk exposure for the Group stems from the business risk profile, covering areas including operations, reputation, regulation, contract, finance, information and strategy.

The Risk Management Committee has approved a policy framework designed to ensure that the Company's material business risks are identified and that adequate controls are in place and function effectively. Reflecting recent growth and diversification into new markets and geographies, and the strategy for transformation, the Risk Management Committee is enhancing this framework. The implementation of an enhanced risk management policy framework incorporates the maintenance of standard and comprehensive risk management procedures which span the Company's diverse and geographically dispersed operations. Responsibility for risk management and control is delegated to the appropriate level of senior management, with the Managing Director, CFO, and Group Executive Systems having ultimate responsibility to the Board for risk management and control within the business.

#### **4.5.3 Risk Management System**

The Board has approved the following arrangements to monitor risk management:

- regular reporting to the full Board in respect of business strategy, operations, the financial position of the Company, and material proposals for new business ventures, acquisitions, divestments and contracts;
- quarterly reports made to the Risk Management Committee by the Managing Director, CFO and Group Executive Systems concerning the identification, understanding, management, control and monitoring of material business risks;

- quarterly reports made to the Audit Committee by the CFO concerning the identification, understanding, management, control and monitoring of material financial and business performance and reporting risks;
- presentations made to the Board or committees of the Board throughout the year by the Managing Director, CFO, Key Management Personnel and by other appropriate members of the Company's management team (and/or independent advisers, where necessary) on the nature of particular risks and details of the measures which are either in place or can be adopted to manage or mitigate the risk; and
- any Director may request that financial, operational and functional audits be undertaken by the Company's management, or internal or external audit.

The Board has also adopted procedures and reporting which allow it to:

- monitor the Company's compliance with the continuous disclosure requirements of the ASX Listing Rules; and
- assess the effectiveness of its risk management system and its implementation.

The Company senior management reported to the Board as to the effectiveness of the Company's management of material business risks during the year ended 30 June 2009.

#### **4.5.4 Material Business Risk**

The materiality of business risks relates to their potential to impact upon the stated financial deliverables and commitments of the organisation. Material business risks include, but are not limited to Safety, Technological, Sustainability, Ethical, Operational, Financial, Professional, Compliance, OH&S, Strategic, Contractual, Reputational, Service Quality, Human Resource, Regulatory, Industry and market related risks.

The materiality of any given risk within the Company is determined by reference to a threshold risk rating. The threshold risk rating is determined via assessment of the stated risk against a Risk Assessment Matrix approved by the Risk Management Committee. This assessment involves an objective measure of the likelihood of the risk event arising and consequences of the given risk should it arise.

Risks assessed at or above the threshold level are considered material risks. For material business risks the actions required by the Company's risk management framework include:

- Understanding the effectiveness of the control and mitigation strategies to be applied;
- Understanding the level of residual risk;
- Understanding accountabilities for risk control actions; and
- Understanding accountabilities for risk control reporting and oversight.

## **5 PERFORMANCE EVALUATION OF THE COFFEY BOARD AND SENIOR MANAGEMENT**

*Board performance evaluation and disclosure* (ASX Recommendations 1.2, 2.5)

### **5.1 Performance Assessment**

It is the Board's policy that it consistently review the performance of the Group and management, as well as the performance of the Board and its sub-committees. The Board formally reviewed its own performance in May 2008 after a similar review session in 2007 where it obtained feedback from an

independent expert in board performance assessment. The results of the 2008 review, including action plans, were documented in the Board minutes.

## **5.2 Overall Board and Committee Performance Assessment**

The Board regularly reviews its own performance, that of its committees and individual directors, including the Chairman. Reviews are either self-assessed as facilitated by the Chairman assisted by the Company Secretary, or by a suitably experienced and competent external consultant appointed by the Board.

In 2009 the Chairman assessed the performance of individual directors and met privately with each director to discuss this assessment which followed a procedure implemented by the Board in 2007 after consultation with an independent expert. Additionally, all independent Directors met on a number of occasions to assess the performance of the Board.

## **5.3 Senior Management Performance Assessment**

The Company has established a performance evaluation and assessment procedure connected to the senior executive incentive program, the Coffey Rewards Scheme. The performance of senior executive managers is assessed bi-annually and results reviewed by the Managing Director and Remuneration Committee. In the year ending 30 June 2009, the Board is satisfied that suitable evaluation has been undertaken of all senior executives in the Company and that the evaluation proceeded in accordance with Company policy.

Information on the operation of the Coffey Rewards Scheme can be found in section A.3 of the Remuneration Report.

# **6 CORPORATE REPORTING**

*Recognise and manage risk (ASX Recommendation 7.1, 7.2)*

## **6.1 Corporate Reporting**

The Company has appropriate policies and procedures in place to ensure the Board receives regular reports about the financial and operational position of the Company in relation to material business risks as defined by the Board in association with senior management.

The Board is satisfied in the assurance it has received from the Managing Director and CFO in accordance with ASX Recommendation 7.3 and section 295A of the Corporations Act. The Managing Director and CFO have made the following certifications to the Board:

- that the financial records of the Company have been properly maintained in accordance with S286 of the Corporations Act 2001;
- that the financial statements and notes thereto comply with Australian Accounting Standards in all material respects;
- that the financial statements and notes thereto present a true and fair view, in all material respects, of the Company's and Group's financial position and performance;
- that, in their opinion, financial statements and notes thereto are in accordance with the Corporations Act 2001;
- that there are reasonable grounds to believe that the Company and Group will be able to pay its debts as and when they become due and payable;

- that the integrity of the financial statements and notes thereto is founded on a system of risk management and internal control which, in all material respects, implements the policies adopted by the Board of Directors;
- that the risk management and internal control systems to the extent they relate to financial reporting are operating effectively, in all material respects, based on the risk management system adopted by the company; and
- nothing has come to their attention since balance date that would indicate any material change to the preceding two statements.

In addition, the Chief Executive Officer and Finance Manager of each operating division have made similar certifications to the CFO as those required by the Managing Director and CFO of the Company to the Board. This procedure was performed for the year ended 30 June 2009.

## **7 COFFEY CODE OF CONDUCT**

*Promote ethical and responsible decision making (ASX Recommendations 3.1, 3.2)*

### **7.1 Code of Conduct**

The Company recognises the need for Directors, management and employees to observe the highest standards of behaviour and business ethics when engaging in corporate activity. The Company has a Code Of Conduct, which was last updated in June 2008. The Code requires that at all times all Company personnel act with the utmost integrity, objectivity and in compliance with the spirit of the law and Company policies.

The Code of Conduct and the Company's trading policy are provided to each new employee as part of their induction training and all employees are required to comply with the Code.

The Code of Conduct applies to Directors, senior management and all employees and assists the Board and CEO to manage the Company in accordance with principles of good corporate governance. A summary of the topics covered by the Code includes:

- standards of personal and professional behaviour;
- how to recognise and deal with a potential conflict of interest responsibly;
- security of company information and property;
- protection against workplace harassment, discrimination and bullying;
- anti-corruption and anti-bribery practices;
- child protection;
- discrimination, harassment and workplace bullying;
- occupational Health and Safety standards and practising in a 'Safety Share' environment; and
- breaches of the Code of Conduct, investigations and disciplinary procedures.

Additional information on the Company Code of Conduct, or a copy of the Code is available in accordance with the Company's shareholder communications policy, from the Company's representative in accordance with section 9 of this statement.

## **7.2 Share Trading Policy**

The Group has implemented a Company share trading policy that applies to directors, executives, senior management and employees in key management positions or where their work places them in possession of unpublished price-sensitive information. The Company Trading Policy is communicated to all employees during induction and a copy provided and explained to directors, senior management and key executives upon their joining the Company.

The Company Share Trading Policy has been prepared in consultation with independent professional advisors and in accordance with the law and ASX Principles and Recommendations. In summary, the policy states that the purchase and sale of, or otherwise dealing in Company securities by Directors, relevant employees and their associates is only permitted during the 21 day period following three dates – after the release of the (1) half-yearly and (2) annual financial results to the market and (3) the Company's AGM. At each market release date the Company may give comment on current trading conditions. Notwithstanding the time windows outlined above, the Company's share trading policy states that relevant employees are strongly advised not to deal in COF shares if they are in possession of unpublished price-sensitive information in relation to those shares, but if they do so contravene the Company Trading Policy and maybe subject to disciplinary action.

The Company Secretary and CFO work together to ensure compliance with the Company's Trading Policy is respected. The Company Secretary maintains oversight of all Company trading and has responsibility to conduct initial investigations considered irregular.

## **8 CONTINUOUS DISCLOSURE**

*Make timely and balanced disclosure (ASX Recommendations 5.1)*

### **8.1 Continuous Disclosure**

The Board reviews and approves disclosures made to the market. At each meeting of the Board, consideration is given whether any Director, Officer or relevant employee possesses information, the nature and particular effect of which may be, whether a reasonable person would be taken to expect the information would have a material effect on the price or value of Company shares or whether it would likely influence an investor to buy or sell Company shares.

The Company has implemented a robust Continuous Disclosure Plan to ensure compliance with ASX listing rules is maintained and that any identified breaches are addressed promptly and completely in accordance with the Company's principles of good corporate governance.

The Board has nominated the Chairman and the Managing Director as authorised company representatives and to liaise and communicate directly with the media when and as required on company matters.

The Company Secretary has been nominated as the person responsible for communications with the ASX. This role includes responsibility for ensuring company-wide compliance with the continuous disclosure requirements in the ASX listing rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

When analysts are briefed on aspects of the Group's operations, where the material used in the presentation is not already publicly available information, it is specifically released to the ASX immediately before the presentation. In the unlikely event that any price sensitive information has been inadvertently disclosed, then this information is also immediately released to the ASX.

All materials for public release are reviewed for compliance against ASX listing rules as part of standard communications publication procedure. In the event of any contravention of internal policy, internal

investigations and disciplinary procedures may be instituted by the Company Secretary working with the Managing Director and the Board.

The Company Secretary is nominated as the primary contact for shareholder and investors on any matters related to Corporate Governance, compliance with ASX listing rules and Company disclosure in general.

## **9 SHAREHOLDER COMMUNICATION**

*Respect the rights of shareholders (ASX Recommendations 6.1)*

### **9.1 Shareholder Communication**

The Company is committed to transparent and responsible dealings with its shareholders and to facilitate effective communication with shareholders. Accordingly it has implemented appropriate policies to ensure external communications are factual, accurate, complete, timely and expressed clearly and concisely.

Recent and past Company announcements to the Australian Securities Exchange may be located on the ASX website 'asx.com.au' under the Company ASX code of 'COF'. They are located in the Announcements Section of the ASX website.

As soon as practical after full year and half yearly release, the Company sends shareholders the release made to the market. Shareholders who have requested it will receive the yearly Financial Report along with the Notice of AGM.

To facilitate ease of access to the Company's annual report, including the Financial Report in a timely manner, shareholders are directed to online access of the annual report on the Company website, [www.coffey.com](http://www.coffey.com). Shareholders may also request a printed copy of the annual Financial Report and half-yearly report from the Company Secretary.

All recent Company announcements, media releases, details of Company meetings, Company corporate governance information and financial reports for the last 3 years are available on the Company's website, [www.coffey.com](http://www.coffey.com).

The Board has nominated the Company Secretary as primary contact for shareholder relations and communication matters. Contact may be made by email via the Company website.

The Corporate Governance section of the Coffey website contains the following documents available for download:

- Company Constitution;
- Board Charter including statement of functions reserved to the Board;
- Risk Committee Charter;
- Audit Committee Charter;
- Remuneration Committee Charter;
- Nomination Committee Charter;
- Risk Management Policy;
- Communications Policy;
- Securities Trading Policy;

- Coffey Code of Conduct;
- Corporate Governance Statement.

Recognising the importance of shareholder communications and reflecting the Company's commitment to transparent and timely disclosure to shareholders, the Board has commenced a project to investigate enhanced shareholder communications through technology for reporting in 2010. Wherever practical the Company utilises webcasting, audio and video technology to communicate more effectively with shareholders, investors and their advisors and will continue to determine ways of utilising this technology to provide shareholders with access to the Company's management.

### **9.1.1 Annual General Meeting**

The Company provides mail and electronic notice of the AGM to shareholders and the ASX and strongly encourages shareholder participation.

Shareholders unable to personally attend the Company's AGM are encouraged to submit any question they may have. Submission can be made to the Company Secretary at the Corporate Office:

Tower 1, Level 3  
495 Victoria Avenue  
Chatswood NSW 2067  
Australia  
Telephone: +61 2 8404 4300  
Facsimile: +61 2 9419 5689

A date, venue and time for the AGM is endeavoured to be selected for convenience to the greatest number of shareholders and the external auditor is required to be present in order to answer shareholder questions relating to the conduct of the audit.