

## Coffey International Limited Corporate governance statement

### COFFEY'S APPROACH TO CORPORATE GOVERNANCE

Coffey International Limited (Coffey or the Company) supports the Australian Securities Exchange (ASX) Corporate Governance Council's Corporate Governance Principles and Recommendations (Principles or Recommendations). Coffey is committed to establishing governance systems that deliver best practice in corporate governance and transparency in reporting. This is an ongoing commitment, requiring continual review, modification and enhancement of governance systems.

This statement explains how Coffey conforms to the Principles.

In June 2010 the ASX Corporate Governance Council released amendments to the Principles (Amended Principles), in particular in relation to diversity. While the changes do not take effect until the first financial year beginning on or after 1 January 2011 (being the financial year commencing 1 July 2011 in our case), Coffey has already taken steps to early adopt key provisions of the Amended Principles as outlined in this statement.

#### Where to locate Coffey's corporate governance information online

The charters, codes and policies in respect of Coffey's corporate governance practices referred to in this Statement are available on the corporate governance section of the Coffey website – [www.coffey.com](http://www.coffey.com).

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

**Recommendation 1.1 – Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions**

#### Board responsibilities

The Coffey Board (Board) is responsible for the overall corporate governance of Coffey.

The Board Charter sets out the following objectives of the Board:

- provide strategic guidance for Coffey and effective oversight of management;
- optimise Coffey's performance and Shareholder value within a framework of appropriate risk assessment and management; and
- recognise Coffey's legal and other obligations to all legitimate stakeholders.

The Board derives its authority to act from the Company's Constitution and the Board's responsibilities are encompassed in a formal Charter which the Board is responsible for reviewing annually and amending as required. The Charter was most recently reviewed and amended in April 2011.

The matters that the Board has specifically reserved for its decision are:

- oversight of the Company including its controls and accountability systems;
- providing input into, reviewing and approving Coffey's strategic plans and performance objectives, and monitoring performance against those plans;
- approving and monitoring financial outcomes and the integrity of financial reporting;
- protecting Coffey's financial position and its ability to meet its debts as and when they fall due;
- approving and monitoring the progress of major capital expenditure, capital management (including determining Coffey's dividend policy and declaring dividends), and acquisitions and divestitures;
- reviewing and monitoring the effectiveness of Coffey's systems of risk management and internal control;
- evaluating the performance of the Board, determining its size and composition and setting Non-executive Director remuneration within Shareholder approved limits;
- appointing, approving terms of engagement and termination

benefits, and monitoring the performance of the Managing Director (MD) and, if appropriate, terminating the appointment of the MD;

- ratifying the appointment and removal of any Executive Director, the Chief Financial Officer, any other member of the Management Team and the Company Secretary, approving their terms of engagement and termination benefits, and monitoring their performance;
- planning for Board, MD and Management Team succession;
- establishing Coffey's culture and values, and monitoring compliance with legislative and regulatory requirements (including continuous disclosure) and ethical standards, including reviewing and ratifying codes of conduct and compliance systems;
- promoting diversity on the Board, reviewing and approving Coffey policies in relation to diversity, approving the measurable objectives and monitoring progress towards their achievement;
- monitoring the timeliness and effectiveness of communications with Shareholders and other stakeholders;
- approving and monitoring policies governing Coffey's relationship with other stakeholders and the broader community, including policies in relation to environmental management and occupational health and safety; and
- reviewing and recommending to Shareholders the appointment or, if appropriate, the termination of the appointment of the external auditor.

While at all times the Board retains full responsibility for guiding and monitoring Coffey, in discharging its responsibilities it makes use of Board Committees. Specialist Committees are able to focus on a particular area of responsibility, and report and provide recommendations to the Board.

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The Board has established the following standing Committees:

- Audit Committee (see Principle 4);
- Nomination Committee (see Principle 2);
- Remuneration Committee (see Principle 8); and
- Risk Management Committee (see Principle 7);

All Coffey Directors receive copies of all Board Committee papers, including minutes, and may attend meetings of all Board Committees whether or not they are Committee members provided no conflict of interest exists.

The Chair of each Committee reports back on the Committee matters, conclusions and recommendations to the Board at the next full meeting.

### Delegation to management

The Board has delegated to the MD and, through the MD, to the Management Team responsibility for the day-to-day management and operations of Coffey and implementation of the Company's strategy and policy initiatives. The MD and Management Team are accountable to the Board for performance of these duties, including:

- developing and implementing corporate strategies and making recommendations to the Board on significant corporate strategic initiatives;
- developing Coffey's annual budget and managing day-to-day operations within the budget;
- maintaining effective risk management and compliance management frameworks;
- appointing senior management, including determining terms of appointment, evaluating performance, and developing and maintaining succession plans for senior management roles;
- managing day-to-day operations in accordance with standards for social, ethical and environmental practices;
- promoting diversity within all levels of the organisation, developing and implementing

policies and initiatives in relation to diversity, and monitoring and assessing progress towards achievement of the measurable objectives; and

- keeping the Board and market fully informed about material continuous disclosure.

Specific limits on the authority delegated to the MD and the Management Team are set out in the Delegation of Authority Policy approved by the Board.

### Management Team

The Management Team comprises the MD and the direct reports to the MD.

Each Management Team member is employed under a service agreement which sets out the terms on which the executive is employed, including details of the executive's duties and responsibilities, rights and remuneration entitlements. The service agreement also sets out the circumstances in which the employment of the executive may be terminated by either Coffey or the executive, including details of the notice periods required to be given by either party and the amounts payable to the executive as a consequence of the termination by Coffey of the executive's employment.

Each member of the Management Team is employed by Coffey on a permanent basis.

Key terms of these service agreements are detailed in the Remuneration Report in this Annual Financial Report.

### Recommendation 1.2 – *Companies should disclose the process for evaluating the performance of senior executives*

The performance of Management Team members is reviewed annually against key performance measures as part of Coffey's performance management system, which is in place for all managers and employees. The system includes processes for the setting of key performance measures at the commencement of the financial year and the annual assessment of

performance against these measures. Some performance measures, such as Coffey's overall financial performance, are common for the Management Team. Other performance measures are specifically set in line with the individual role and responsibilities of the Management Team member.

The following process for Management Team performance evaluation was undertaken in the reporting period:

- the Chairman and Non-executive Directors, with the assistance of the Remuneration Committee, reviewed the performance of the Managing Director; and
- the Board, with the assistance of the Remuneration Committee, reviewed the performance of the other members of the Management Team.

Details of the evaluation process and the linkages between the result of performance evaluations and remuneration are disclosed in the Remuneration Report in this Annual Financial Report.

An induction program is in place to enable newly appointed Management Team members to gain an understanding of:

- the Company's financial position, strategies, operations and risk management policies; and
- the respective rights, duties, responsibilities and roles of the Board and the Management Team.

### Principle 2: Structure the Board to add value

Together, the Board members represent a diverse range of backgrounds and have a broad range of financial and other skills, experience and expertise necessary to oversee Coffey's business. The Board's size and composition are subject to limits imposed by the Company's Constitution, which provides for a minimum of three Directors and a maximum of seven (or such number within this range as the Board may determine from time to time).

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The Board currently comprises five Non-executive Directors and one Executive Director.

The Managing Director is the Executive Director and Chief Executive Officer of Coffey. As part of its ongoing renewal and succession planning process, the Board intends to appoint an independent Non-executive Director in the 2012 financial year.

The Directors of Coffey at any time during the financial year are listed with a brief description of their qualifications, experience and special responsibilities in the Directors' Report of this Annual Financial Report.

During the financial year, Ms Susan Oliver was appointed as a Non-executive Director and Mr John Douglas was appointed as Managing Director. Mr Roger Olds stepped down as Managing Director in February 2011.

The Board met 27 times during the financial year. Directors' attendances are set out in the Directors' Report of this Annual Financial Report. The Non-executive Directors also met without the presence of management during the financial year.

### **Recommendation 2.1 – A majority of the Board should be independent Directors**

As required under the Board Charter and the Principles, the Board comprises a majority of independent Non-executive Directors. The Board regularly assesses the independence of all Non-executive Directors in accordance with the principles set out below.

#### **Independent advice**

Under the Board Charter, the Board collectively, an individual Director, or a Committee, has the right to seek independent professional advice at Coffey's expense to help them carry out their responsibilities.

Before the external advice is sought, consent, which cannot be unreasonably withheld, needs to be obtained as follows:

- the Board – from the Chair;
- individual Director – from the Chair or the relevant Committee Chair;
- Committee – from the Committee Chair; or
- Chairman – from the next most senior Non-executive Director (longest serving).

Directors have unfettered access to Coffey records and information reasonably necessary to fulfil their responsibilities. Directors also have access to the Company Secretary on any matter relevant to their role as a Director. In addition, the Board has access to other relevant employees or external parties, including the external auditors and internal auditors, to seek additional information concerning Coffey's business.

#### **Director independence**

The Board Charter states that Coffey will regard a Non-executive Director as independent if the Director is not a member of management and is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their judgement as a Director of the Company.

In assessing Non-executive Director independence, the Board reviews the relationship that the Director, and the Director's associates, have with Coffey. In determining whether a Non-executive Director is independent, the Board considers whether the Director:

- is a substantial Shareholder of Coffey or an officer of, or otherwise associated directly with, a substantial Shareholder of Coffey;
- within the last three years, has been employed in an executive capacity by Coffey;
- within the last three years, has been:
  - a principal of a material professional adviser to Coffey;
  - a material consultant to Coffey; or
  - an employee materially associated with the service

provided by such adviser or consultant to Coffey;

- is a material supplier to, or customer of, Coffey, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has a material contractual relationship with Coffey other than as a Director of Coffey;
- has 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 Coffey's best interests; or
- has any interest, or any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in Coffey's best interests.

The Board has determined materiality thresholds for assessing the independence of Directors.

Under those thresholds:

- a person will be regarded as a substantial Shareholder if they hold more than five per cent of Coffey's voting shares;
- an adviser will be a material professional adviser or consultant where the annual billings to Coffey are more than five per cent of the adviser's or consultant's total annual revenues or in aggregate, for each adviser or consultant, equal or exceed \$500,000;
- a supplier to Coffey will be a material supplier where Coffey accounts for more than five per cent of the supplier's annual revenues; and
- a customer of the Company will be a material customer where the customer accounts for more than five per cent of Coffey's annual revenues, or Coffey accounts for more than five per cent of the customer's annual costs.

Whether or not a material contractual relationship exists will be determined, on a case-by-case basis, consistent with these thresholds.

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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 Director and executive disclosures note to the Annual Financial Report in accordance with law.

Applying these criteria the Board has determined that save for Mr Douglas (who is an Executive Director), all other Directors are independent.

### Current year - consideration of relationships and impact on independence

An entity connected with Mr Williams provided legal services to Coffey during the year with annual billings to Coffey totalling \$51,916, as described in note 25 to the financial statements. Mr Williams declared his interest in those dealings to Coffey and took no part in decisions relating to them or any preceding discussions.

The Board, having considered the business dealings disclosed by Mr Williams, has determined that these business dealings do not materially interfere with the effective performance of the responsibilities of the Director.

### Term of office – annual re-election

Mr Williams joined the Board of Coffey in November 1994. The Board recognises that Mr Williams' tenure could be perceived to materially interfere with his ability to act independently.

The Board has considered Mr Williams' length of service and formed the view that it 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 other Board members.

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 opportunity to consider the degree to which the Director is making a significant contribution to Coffey and make a balanced assessment of the Director's actual and perceived independence.

### Recommendation 2.2 – The chair should be an independent Director

Under the Board Charter, the Board elects a Chairman from among the Non-executive Directors. It is a requirement of the Charter that the Chairman be independent.

### Recommendation 2.3 – The roles of Chair and Chief Executive Officer should not be exercised by the same individual

The requirement in the Board Charter that the Chairman be appointed from among the Non-executive Directors means that the roles of Chairman and Managing Director are not exercised by the same individual.

The Chairman presides over Board meetings and Shareholder meetings. Under the Board Charter, the Chairman is also responsible for:

- leading the Board in reviewing and discussing Board matters;
- managing the efficiency and conduct of the Board's function;
- briefing all Directors in relation to key issues arising at Board meetings;
- facilitating effective contribution by all Directors and monitoring Board performance;
- guiding Board deliberations, free of undue bias;
- promoting constructive relations between Directors and between the Board and management;
- overseeing that membership of the Board is skilled and appropriate for Coffey's needs;
- reviewing corporate governance matters with the Company Secretary and reporting on those matters to the Board; and
- overseeing the implementation of policies and systems for Board performance review and renewal.

The Chairman must ensure that General Meetings are conducted efficiently, and that Shareholders have adequate opportunity to air their views and obtain answers to their queries.

### Recommendation 2.4 – The Board should establish a nomination committee

The Board has established a Nomination Committee comprising three independent Non-executive Directors:

John Mulcahy (Chairman), Stuart Black and Stephen Williams.

The Managing Director is invited to attend meetings as required.

The Committee Charter states that the role of the Committee is to assist and advise the Board on matters relating to:

- composition of the Board (including Board diversity);
- Board and Chair succession planning;
- Director independence; and
- performance of the Board.

The Committee collectively and its members individually have access to internal and external resources, including access to advice from external consultants or specialists.

The Committee has a formal Charter that is required to be reviewed annually. The Charter was most recently reviewed in May 2011. The Company Secretary is the secretary to the Committee.

The Committee meets as required and at least annually and met once during the year. Details of Directors' attendances are set out on page 23 of this Annual Financial Report.

### Process of selection and appointment of new Directors

When a vacancy arises, the Nomination Committee considers candidates with a broad range of skills, experience and expertise from a diverse range of backgrounds, including gender. Candidates are considered on merit and against objective criteria, and with due regard for the benefits of diversity on the Board, including gender.

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When the Board considers that a suitable candidate has been found, that person is appointed by the Board to fill a casual vacancy in accordance with Coffey's Constitution, but must stand for election by Shareholders at the next Annual General Meeting.

New Directors are given a thorough briefing by the Chair and/or Company Secretary on key Board issues and provided with appropriate induction documentation. These include:

- Coffey's financial, strategic, operational and risk management position;
- their rights, duties and responsibilities; and
- the role of the Board and the Board Committees.

### **Recommendation 2.5 – Companies should disclose the process for evaluating the performance of the Board, its committees and individual Directors**

Under the Board Charter, the Board is required to conduct a formal review of its effectiveness and the effectiveness of its Committees and individual Directors annually. During the financial year, the Board completed a review of its own performance, the performance of its Committees and the performance of individual Directors. That review involved each Director, the Chief Financial Officer and the Company Secretary completing a questionnaire covering:

- the role of the Board;
- Board composition;
- Board committee structure and committee effectiveness;
- Board operations and dynamics;
- Board meetings;
- Board member performance; and
- Board Chair performance.

The aggregate results of the questionnaire were discussed at a subsequent Board meeting. The Chairman also met separately with each Director to discuss individual responses to the questionnaire.

The Board Charter requires that every three years, the Board

consider engaging an external consultant to conduct a comprehensive review of the effectiveness of the Board, its Committees and individual Directors. After considering the financial performance of the Company, its limited resources and the potential distraction of a prolonged assessment process, the Board has deferred the engagement of an external consultant to be considered by the Board for the 2012 evaluation.

During the financial year, the Audit, Remuneration and Risk Committees also completed a detailed review of their own performance. That review involved each Committee member, the Managing Director and the relevant Management Team members completing a questionnaire. In addition, the external auditors were invited to provide feedback on the Audit Committee performance and effectiveness.

The reviews found that the Committees each had been effective in performing their responsibilities under the Committee Charters. Each Committee set aside time at one of its scheduled meetings to discuss its performance over the year in achieving the objectives set out in its Charter and to consider areas to continue improving its effectiveness.

The evaluation of the Managing Director and Management Team performance is discussed in the Remuneration Report in this Annual Financial Report.

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

Coffey recognises that its reputation is one of its most valuable assets, and is founded largely on the ethical behaviour and integrity of the people who represent the organisation around the world.

### **Recommendation 3.1 – Companies should establish a code of conduct**

All behaviours within Coffey are measured against our Vision,

Promise and Behaviours statement set out below.

This ethical framework provides the foundation for maintaining and enhancing Coffey's reputation.

*Our Vision:* Global specialists solving emerging challenges to improve the lives of communities.

*Our Promise:* We share your challenge and passionately deliver smarter solutions.

#### *Our Behaviours:*

- Owning and delivering our vision, promise and behaviours
- Be healthy and safe
- Respect for all
- Act with integrity
- Create the space for great team work 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

The Board has approved a Code of Conduct that sets out the principles for ethical behaviour by all Coffey employees. Coffey's Code of Conduct therefore commits its Directors, employees, contractors and consultants (all of which are referred to as 'employees' in the Code) to not only comply with the law, but to conduct business in accordance with the highest ethical conduct and is structured to enhance Coffey's core values, which guide the policies, programs and training initiatives.

Any breach of the Code of Conduct is a serious matter that may give rise to disciplinary action, including dismissal and legal action.

Coffey is committed to the highest standards of integrity, fairness and ethical conduct, including full compliance with all relevant legal obligations. There is no circumstance under which it is acceptable for Coffey or a person associated with Coffey to knowingly or deliberately not comply with the law or to act unethically in the course of performing or advancing Coffey's business.

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Behaviour of this kind will lead to disciplinary measures that may include dismissal.

All new Coffey employees are provided with Coffey's Code of Conduct on induction.

### **Recommendation 3.2 (removed in Amended Principles) – Companies should establish a policy concerning trading in securities by Directors, senior executives and employees**

Coffey has a policy applying to all Directors, the Management Team, other Designated Persons, employees, contractors and consultants that prohibits insider trading in accordance with the Corporations Act and prescribes certain requirements for dealing in Coffey Securities (including in certain circumstances, restrictions on dealing in Coffey Securities by a direct family member).

Coffey Directors, the Management Team and other employees are prohibited from dealing in, or influencing others to deal in, Securities of Coffey or any other listed company if:

- they possess information about Coffey or another company that is not generally available to the market; and
- the information, if it were generally available to the market, would be likely to influence persons who commonly acquire securities, in deciding whether or not to acquire or dispose of securities in Coffey or another company.

Additionally, under the policy:

- Unless they have prior written approval, Coffey People must not deal in Coffey Securities during the following Blackout Periods:
  - during the period from the end of the relevant financial year or half year until one trading day after the release of the Company's financial results to the market.
- Before any Designated Person, including the Directors, Management Team members and other executives and

managers, deals in any Coffey Securities at any time, including outside a Blackout Period, they must discuss the proposed dealing with (and obtain prior written approval from):

- the Chairperson, in the case of the Directors, the Managing Director, Chief Financial Officer and the Company Secretary;
- the Managing Director, Company Secretary or Chairperson, in the case of other Management Team members, senior executives and managers; or
- the Chair of the Audit Committee, in the case of the Chairperson.
- It is prohibited for any Director, Management Team member, or any other employee to deal in Coffey Securities for short-term gain (within any six month period).
- Any Director who intends to enter into a margin loan or similar funding arrangement to acquire any Coffey Securities must disclose those dealings in writing to the Company Secretary prior to entry into the arrangement. The Director must ensure the terms of the arrangement does not require, or allow for, the disposal of the Coffey Securities at any time when the Policy would prohibit the Director from dealing in the Coffey Securities.
- It is prohibited for employees to enter into any scheme, arrangement or agreement that may alter the economic benefit derived by the employee with respect to their participation in any unvested equity-based reward.

The Securities Dealing Policy was most recently reviewed and amended in April 2011.

All new Coffey employees are provided with Coffey's Securities Dealing Policy on induction.

### **Recommendation 3.2 (Amended Principles): Companies should establish a Diversity policy.**

Coffey has considerable diversity in its workforce, and has an ongoing commitment to diversity and providing a work environment that is inclusive and where all employees are treated with dignity, courtesy and respect. At Coffey, diversity includes differences that relate to gender, age, ethnicity, disability, religious beliefs, sexual orientation and cultural background.

Coffey recognises that having a diverse workforce is a key competitive advantage which promotes innovation, strengthens problem solving capability, enhances understanding of the needs of our customers and enables superior business and personal results. Coffey acknowledges that diversity brings many benefits and encourages greater diversity in the workplace.

The Board has approved policies in relation to diversity at Board level and at all levels below the Board in early adoption of the Amended Principles. These policies provide a platform for an integrated diversity management policy across the group, leveraging initiatives already in place within Coffey's service lines and improving governance and monitoring of diversity at all levels. A management diversity council is being established, to be chaired by the Managing Director, to monitor progress and report to the Remuneration Committee on the effectiveness of diversity related initiatives, including progress against specific objectives in line with the policy.

Responsibility for diversity has been included in the Board Charter, the Nomination Committee Charter (Board diversity) and the Remuneration Committee Charter (diversity at all levels of the organisation below Board level).

The Board has established measurable objectives for improving gender diversity, which will be reviewed annually.

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**Recommendation 3.3 (Amended Principles): Companies should disclose the measurable objectives for achieving gender diversity and progress towards achieving them.**

Coffey has established the following measurable objective for improving gender diversity:

“To increase the percentage of women at all levels in the Company, including management, executive and Board levels.”

An assessment of progress towards achievement of this objective will be undertaken by the Nomination Committee (Board) and Remuneration Committee (all levels below Board) and included in the Company's 2012 Annual Financial Report.

**Recommendation 3.4 (Amended Principles): Companies should disclose the proportion of women employees in the organisation.**

The table below shows the proportion of women employees across the Coffey group as at 9 June 2011:

Position	By Number	By Percentage
Board member	1	17%
Senior Manager	53	13%
Other	712	34%
<b>TOTAL</b>	<b>766</b>	<b>30%</b>

**Principle 4: Safeguard integrity in financial reporting**  
**Recommendation 4.1 – The Board should establish an audit committee**

The Board has established an Audit Committee comprising three independent Non-executive Directors:

Stuart Black (Chairman), John Mulcahy and Charles Jamieson AM.

Its primary function is to assist the Board in the discharge of its responsibilities with regard to independently verifying and safeguarding the integrity of Coffey's financial reporting.

**Recommendation 4.2 – The audit committee should be appropriately structured**

Under its Charter, the Audit Committee must have at least three members, all of whom must be independent Non-executive Directors. The Chair of the Board is not permitted to chair this Committee.

The Charter also requires that all members have a working familiarity with basic accounting and finance practices and that at least one member have relevant financial qualifications and expertise (Mr Black). The Committee must also include members with an understanding of the industry in which Coffey operates. The Chair of the Risk Management Committee has a standing invitation to attend committee meetings.

Further details of the qualifications and experience of all Committee members are disclosed on pages 20 to 22 of this Annual Financial Report. The Committee meets as required, and at least four times per year. In addition, the Committee meets in a joint session with the Risk Management Committee at least annually. The Committee met six times during the year. Directors' attendances are set out on page 23 of this Annual Financial Report.

The Managing Director, Chief Financial Officer, Group Financial Controller and external auditors have a standing invitation to attend Committee meetings. The internal auditors attend meetings at the discretion of the Committee. The Company Secretary is the secretary to the Committee.

The Committee meets privately with the external auditor on general matters concerning the external audit and other related matters, including the half year and full year financial reports. The Committee also meets privately with the internal auditor and in private session with management.

The Committee collectively, and its members individually, have access to internal and external resources, including access to advice from external consultants or specialists.

**Recommendation 4.3 – The audit committee should have a formal charter**

The Committee has a formal Charter that is required to be reviewed annually. The Charter was most recently reviewed in November 2010.

The Charter sets out the roles and responsibilities, composition, structure and membership requirements of the Committee including liaison with, and reporting to, the Board Risk Management Committee.

The Committee's primary responsibilities include:

- monitoring the integrity of financial reporting;
- monitoring the effectiveness of financial risk management processes;
- monitoring the effectiveness of the internal controls environment;
- monitoring and reviewing the effectiveness and performance of Internal Audit;
- monitoring and reviewing the external auditor's qualifications, performance and independence;
- liaison with Board Risk Management Committee; and
- monitoring legislative and regulatory compliance.

### Auditor independence

Coffey's External Auditor Independence Policy contains details of the procedures for the selection and appointment of the external auditor and for reviewing the independence of the external auditor.

The external auditor is precluded from providing any services that might threaten their independence, or conflict with their assurance and compliance role. The Directors have concluded that non-audit services provided during the financial year did not compromise the external auditor's independence requirements under the Corporations Act 2001.

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The lead and signing external audit partners are required to rotate off the audit after a maximum of five years.

The internal audit function may not be performed by the external auditors.

**Principle 5: Make timely and balanced disclosure**  
**Recommendation 5.1 –**  
***Companies should establish continuous disclosure policies and ensure compliance with those policies***

Coffey complies with its disclosure obligations under the ASX Listing Rules and the Corporations Act 2001, and has in place established procedures for dealing with compliance.

Coffey has a Continuous Disclosure Policy that establishes a framework to enable Coffey to provide Shareholders and the market generally with timely, direct and equal access to relevant information about the Company. The Policy sets out Coffey's disclosure obligations, notification process and how Coffey communicates with financial markets.

The Board is responsible for considering and approving draft ASX announcements containing Material Information, based on the recommendations of the Disclosure Committee.

The Disclosure Committee – which comprises the Chairman (or another Non-executive Director), MD, CFO and Company Secretary (the nominated Disclosure Officer) – is responsible for monitoring compliance with the Continuous Disclosure Policy. The Company Secretary, or in their absence the CFO, is the convener of meetings of the Committee.

The Committee is responsible for administering the Continuous Disclosure Policy including overseeing preparation of proposed external announcements ensuring they contain material information that is both objective and factual, and are clearly written to allow investors to assess the impact of information on their investment

decisions. The Committee is also responsible for recommending changes to the Continuous Disclosure Policy to the Board.

The Company Secretary reports regularly to the Board on matters that were either notified or not notified to the ASX. Directors receive copies of all announcements immediately after notification to the ASX. All ASX announcements are available on the Coffey website.

Communication with the financial market, investors and media is the responsibility of the Chairman, MD or CFO. The Continuous Disclosure Policy covers briefings to investors and stock broking analysts, general briefings, one-on-one briefings, blackout periods, compliance and review, as well as media briefings.

The Continuous Disclosure Policy was most recently reviewed and amended in April 2011.

**Principle 6: Respect the rights of Shareholders**  
**Recommendation 6.1 –**  
***Companies should design a Shareholder communications policy***

Coffey has established a Shareholder Communication Policy to promote effective engagement with our Shareholders, both retail and institutional, and strives to keep Shareholders informed about the Company's activities. Coffey, on an ongoing basis, examines how best to take advantage of technology to enhance Shareholder communications and how to use General Meetings to enhance two-way communication.

The Shareholder Communication Policy was most recently reviewed and amended in April 2011. The policy reflects the matters set out in the commentary and guidance for Recommendation 6.1.

Coffey utilises the means of communication that is best suited to the information and audience at the time and most relevant and effective for our Shareholders. Our website ([www.coffey.com](http://www.coffey.com)) allows Shareholders to access Board and Committee charters, corporate governance policies, ASX

announcements, annual and half year reports, information for Shareholder meetings, investor presentations and other corporate information.

**Information release practices**

Coffey seeks to ensure that all investors have equal and timely access to price sensitive information.

Prior to making a presentation to investors or stock broking analysts, Coffey will lodge the presentation material with the ASX so that all Shareholders can access the information. Coffey will not expressly or implicitly provide investors, stock broking analysts or the media with forecast profit guidance, unless that information has been disclosed previously to the ASX.

Coffey is committed to ensuring that information released to the ASX is factual and is expressed in a balanced, objective and clear manner.

**General meetings**

Coffey's Annual General Meeting is an important forum for our Shareholders.

Shareholders are invited to submit questions before the meeting and, at the meeting, the Chairman attempts to answer as many of these as is practicable.

The Chairman encourages Shareholders at the meeting to ask questions and make comments about Coffey's operations and the performance of the Board and senior management. The Chairman may respond directly to questions or, at his/her discretion, may refer a question to another Director, the MD or a member of the Management Team.

New Directors or Directors seeking re-election are given the opportunity to address the meeting about why they should be elected. Shareholders can ask questions of any Director seeking re-election at the meeting.

All Directors and members of the Management Team attend the Annual General Meeting.

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Representatives of KPMG, our external auditor, also attend the meeting and are available to respond to questions from Shareholders. Shareholders may submit written questions to the auditor to be considered at the meeting in relation to the conduct of the audit and the preparation and content of the Independent Audit Report by providing the questions to Coffey or to KPMG at least one week prior to the Meeting.

Shareholders who are unable to attend the Annual General Meeting are able to watch and listen to the business of the meeting via a webcast that can be accessed from the Coffey website.

Notices of meeting sent to Coffey's Shareholders comply with the 'Guidelines for notices of meeting' issued by the ASX in August 2007.

### Electronic communication

Coffey encourages Shareholders to receive company information electronically and advises Shareholders when the Annual Financial Report is available for viewing on the Coffey website. Coffey provides a printed copy of the Annual Financial Report to only those Shareholders who have specifically elected to receive a printed copy.

Coffey's website allows Shareholders to view all ASX and media releases for the last three years; various investor presentations; a copy of the most recent Annual Financial Report and Annual Financial Reports for the two previous financial years; and the Notice of Meeting and accompanying explanatory material for the most recent Annual General Meeting and the Annual General Meetings for the two previous financial years.

Shareholder meetings and analyst/media briefings in relation to half year and full year financial results are webcast, and other significant events can be heard by teleconference.

### Principle 7: Recognise and manage risk

The Board is responsible for the oversight of Coffey's risk management and control framework. The Risk Management Committee assists the Board in fulfilling its responsibilities in this regard. The Managing Director and Management Team are responsible for the design and implementation of risk management systems and managing the material business risks. Risk exposures stem from Coffey's business risk profile which covers areas including operations, environment, brand and reputation, compliance, finance, information and strategy.

Coffey's risk management practices are aimed at protecting the health and wellbeing of Coffey employees, ensuring that Coffey complies with its obligations at law and to the community, and protecting Shareholder value. Coffey recognises that risk management can also include identifying opportunities that create value for the business and Shareholders.

### Recommendation 7.1 – Companies should establish policies for the oversight and management of material business risks

The Board has approved a Risk Management Framework and supporting policies and processes to oversee and manage risk. Coffey is implementing a Risk Management Framework designed to ensure that the Company's material business risks are identified and that adequate controls are in place and function effectively. This framework incorporates the establishment of comprehensive policies, procedures and guidelines across the global business. This Framework acknowledges that all employees have a role in managing risk and in particular they are encouraged to report incidents, hazards and risks.

The Board has approved a statement of Risk Management Policy which was most recently reviewed and amended in May 2011.

### Recommendation 7.2 – Establish risk management and internal control systems to manage material business risk and require management to report on the effectiveness of these systems and material business risk management

#### Risk management process

The processes to support the Risk Management Framework operating throughout the global organisation include:

- a clearly defined organisation structure with approved authority limits;
- an incident management system that facilitates the reporting of all incidents to management and the escalation of potentially serious issues;
- annual budgeting and monthly reporting systems for all business units, which enable progress against the annual plan to be monitored, trends to be evaluated and variances to be addressed;
- policies to manage the financial risks, including hedging foreign exchange exposures;
- a comprehensive group-wide insurance program;
- enterprise-wide risk management that enables the identification, management and reporting of risk throughout the business. The model is consistent with ASX guidelines for risk management and the standard on risk management AS/NZ 4360. The system deals with risk at all levels, including strategic, operational, compliance and financial risks;
- a compliance program where the Management Team are required to bring certain matters to the attention of the Directors on a six-monthly basis or sooner where appropriate. The program requires Executives to sign off that all material non-compliance with regulatory obligations in their area of responsibility have been reported; and
- appropriate due diligence procedures for corporate acquisitions and disposals.

## Coffey International Limited Corporate governance statement

Coffey has a number of other policies that directly or indirectly serve to reduce and/or manage risk. These include but are not limited to:

- Delegation of Authority Policy;
- Health, Safety, Security and Environment Policy;
- Code of Conduct;
- Continuous Disclosure Policy;
- Securities Dealing Policy;
- Treasury Policy; and
- Privacy Policy.

### Roles and responsibilities

**Board** - the Board is responsible for reviewing and approving changes to Risk Management Policies and for satisfying itself that Coffey has a sound system of risk management and internal control that is operating effectively.

**Risk Management Committee (Committee)** - the Committee oversees the detailed analysis of the effectiveness of the system of risk management and internal control. The Committee receives an annual presentation of Coffey's material business risks and review the controls in place to mitigate the consequences of those risks. The Committee also receives regular presentations from management throughout the year on specific risk topics.

**Management Team** - the MD has primary responsibility for designing, implementing and reporting on Coffey's risk management framework. The Service Line Executives have primary responsibility for promoting a risk management culture within their service lines. The Management Team collectively has responsibility for promoting a risk management culture throughout Coffey, including consistent application of Risk Management Policies across the Group.

**Business Units** - are responsible for maintaining effective internal controls, consistently applying the risk management framework, and reporting new or changed risk events.

**Internal audit** - Internal Audit provides assurance to the Committee on the effectiveness of Coffey's risk management

framework and to the Audit committee on the adequacy and effectiveness of the system of internal controls.

### Risk Management Committee

The Board has established a Risk Management Committee comprising:

Stephen Williams (Chairman), John Mulcahy and Susan Oliver.

The Chair of the Audit Committee has a standing invitation to attend Committee meetings.

The Managing Director, CFO, Group Executive Strategy and Group Executive Human Resources have a standing invitation to attend Committee meetings.

The Committee has a formal Charter that is required to be reviewed annually. The Charter was most recently reviewed in May 2011. The Company Secretary is the secretary to the Committee.

The Committee meets as required, and at least four times per year including meeting in a joint session with the Audit Committee at least annually. The Committee met four times during the year, including the joint session with the Audit Committee. Details of Directors' attendances are set out on page 23 of this Annual Financial Report.

### **Recommendation 7.3 – MD and CFO assurance on financial reporting risks**

In accordance with section 295A of the Corporations Act 2001, the MD and CFO have provided a written Certificate to the Board that, in their opinion, the Company's financial reports present a true and fair view in all material respects, of the financial position and performance of the Company, and that management's risk management and internal controls over financial reporting, which implement the policies and procedures adopted by the Board, are operating effectively in all material respects.

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

### **Recommendation 8.1 – The Board should establish a remuneration committee**

The Board has established a Remuneration Committee comprising three independent Non-executive Directors:

Susan Oliver (Chair), John Mulcahy and Stuart Black.

The MD and Group Executive Human Resources attend meetings of the Remuneration Committee by invitation when required to report on and discuss senior management performance, remuneration and related matters, but are not present at meetings when their own performance or remuneration is discussed.

### **Recommendation 8.2 (Amended Principles) – The remuneration committee should be appropriately structured**

Under its Charter, the Remuneration Committee must have at least three members, the majority of whom must be independent Non-executive Directors. The Committee Chair must be an independent Director.

Further details of the qualifications and experience of all Committee members are disclosed on pages 20 to 22 of this Annual Financial Report.

The role of the Committee is to assist and advise the Board on matters relating to:

- the Company's remuneration strategy, policies and practices;
- the remuneration of the Board;
- the performance and remuneration of the Managing Director and Management Team;
- succession planning and talent development for the Managing Director and Management Team; and
- diversity (at all levels of the organisation below Board level).

## Coffey International Limited Corporate governance statement

The Committee is responsible for ensuring Coffey has and observes coherent remuneration policies and practices which enable it to attract and retain high calibre executives, Directors and employees who will create value for Shareholders, generate sustained business performance and support Coffey's objectives, goals and values.

The Committee has a formal Charter that is required to be reviewed annually. The Charter is currently under review. The Company Secretary is the secretary to the Committee.

The Committee may engage and/or terminate, at the expense of the Company, any independent external adviser in relation to any Committee matter, as it determines are required to assist it in the full performance of its functions.

The Committee meets as required, and at least four times per year. The Committee met eleven times during the year. Directors' attendances are set out on page 23 of this Annual Financial Report.

### **Recommendation 8.2 (8.3 Amended Principles) –Companies should distinguish between Non-executive Directors' remuneration and that of Executive Directors and senior management**

Coffey's remuneration structure distinguishes between Non-executive Directors and that of the Managing Director and Management Team.

Remuneration for Non-executive Directors is fixed. Board and Committee fee rates are reviewed by the Remuneration Committee and approved by the Board (subject to the Shareholder approved remuneration pool) for each coming year.

There has been no increase in Non-executive Director fees since October 2008 and the Board has resolved that there will be no increase in fees for the 2011 financial year.

Remuneration does not include any performance-based components and Non-executive Directors do not

participate in any rewards plans or bonus schemes. The Non-executive Directors receive statutory superannuation (and may salary sacrifice fees to superannuation). Coffey does not have a retirement benefits scheme for Non-executive Directors.

Fees paid to the Non-executive Directors reflect the responsibilities and demands made on the Directors. In the 2011 financial year, fees paid to Non-executive Directors totalled \$618,134 well within the maximum Board remuneration pool of \$700,000 per annum, inclusive of statutory entitlements. This pool was approved by Shareholders at the Annual General Meeting held in November 2008.

### **Hedging of securities under Coffey long-term rewards plans by Designated Persons**

As noted previously in relation to Recommendation 3.2, Coffey's share trading policy prohibits Designated Persons from hedging an exposure to unvested or vested Coffey Securities held through Coffey's rewards plans.

A Remuneration Report required under Section 300A(1) of the Corporations Act 2001 is provided in the Directors' Report, commencing on page 24 of this Annual Financial Report.