



# CORPORATE GOVERNANCE STATEMENT

## THE COMPANY'S APPROACH TO CORPORATE GOVERNANCE

The Board and management of STW Communications Group Limited recognise their duties and obligations to stakeholders to implement and maintain a robust system of corporate governance. The Company believes that the adoption of good corporate governance adds value for stakeholders and enhances investor confidence.

The Company acknowledges the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations ("Guidelines") revised on 30 June 2010. This statement provides details of the Company's compliance with those recommendations, or where appropriate, indicates a departure from the Guidelines with an explanation.

This statement reflects the Company's corporate governance system in place during the year ended 31 December 2010 and at the date of this statement. The policies are contained on the Company's website, [www.stwgroup.com.au](http://www.stwgroup.com.au).

## PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

### Roles and responsibilities

The Board is accountable to shareholders for the Company's performance.

The Board's roles and responsibilities are formalised in a Board Charter, together with specific matters that are delegated to management. The charter is disclosed on the Company's website.

The Board has established Committees to assist in carrying out its responsibilities and consider certain issues and functions in detail. The Board Committees are discussed in Principle 2 below.

Board-approved policies and the Code of Conduct define the responsibilities for day-to-day operations delegated to management, and those requiring Board approval.

### Retirement and re-election of Directors

The Company's constitution provides for new Board-appointed Directors to stand for election by shareholders at the next Annual General Meeting. In addition, at each Annual General Meeting one-third of Directors, other than the Managing Director, will stand for re-election every year. An election of Directors is held at each Annual General Meeting.

Day-to-day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the Board to the Chief Executive Officer and senior executives as set out in the Group's delegations policy. These delegations are reviewed on an annual basis.

## Senior executive performance review

The performance of all key executives, including the Chief Executive Officer, is reviewed annually. This involves executives being evaluated by their immediate superiors and assessed against a variety of personal and financial goals.

The Chairman assesses the Chief Executive Officer's performance, including setting the Chief Executive Officer's goals for the coming year, reviewing progress in achieving those goals and making recommendations to the Board.

The Chief Executive Officer is responsible for setting performance objectives and reviewing the performance of his direct reports. The Remuneration and Nominations Committee considers the performance of the Chief Executive Officer and key executives in assessing future fixed remuneration and awarding performance related remuneration through short-term and long-term incentives. Further information is in the Remuneration Report on pages 41 to 54.

A performance assessment for senior executives last took place in December 2010.

## PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

### Board structure

As at the date of this statement, the Board is made up of four independent non-executive Directors, two non-executive non-independent Directors and two executive Directors. Directors' profiles – with details of Directors' skills, experience and special expertise – are on pages 34 and 35 in this Annual Report and are also contained on the Company's website, [www.stwgroup.com.au](http://www.stwgroup.com.au).

The Directors determine the Board's size and composition, within the limits set by the Company's constitution, which requires the Board to comprise between three and 10 Directors. The table below summarises the current composition of the Board.

The composition of the Company's Board, was a departure from ASX Recommendation 2.1, which requires a majority of the Board to be non-executive and independent. The Board determined that the composition of the Board represents the best mix of Directors that have an appropriate range of skills, experience, expertise and diversity, who can understand and competently deal with current and emerging business issues, and can effectively review and challenge the performance of management and exercise independent judgement.



# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

## PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE (CONTINUED)

### Board structure (continued)

Name	Position	Independent	Reason for Non-Independence	First Appointed
Robert Mactier	Chairman	YES	-	2006
Russell Tate	Deputy Chairman	NO	A former Chief Executive Officer	1992
Michael Connaghan	Chief Executive Officer	NO	Chief Executive Officer	2008
Anne Keating (resigned 10 February 2011)	Non-executive Director	YES	-	1995
Graham Cubbin	Non-executive Director	YES	-	2008
Ian Tsicalas	Non-executive Director	YES	-	2007
Paul Richardson	Non-executive Director	NO	Associated directly with a substantial shareholder – Cavendish Square Holdings BV (WPP plc)	1999
Peter Cullinane (appointed 3 June 2010)	Executive Officer	NO	Chief Executive Officer of a subsidiary of STW Group	2010
Kim Anderson (appointed 10 November 2010)	Non-executive Director	YES	-	2010

### Directors' independence

In considering whether a Director is independent the Board has regard to ASX Principle 2.1.

When determining the status of an independent Director, the Board should consider whether the Director:

- is a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- is employed, or has previously been employed, in an executive capacity by the Company or another Group member, and there has not been a period of at least three years between ceasing such employment and serving on the Board;
- has within the last three years been a principal of a material professional advisor or a material consultant to the Company or another Group member, or an employee materially associated with the service provided;
- is a material supplier or customer of the Company or another Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer; or
- has a material contractual relationship with the Company or a controlled entity other than as a Director of the Group.

The Board assesses independence each year. To enable this process, the Directors must provide all information that may be relevant to the assessment.

### Role of the Chairman

The Chairman is responsible for leading the Board, ensuring Directors are properly briefed in all matters relevant to their role and responsibilities, facilitating Board discussions and managing the Board's relationship with the Company's senior executives. In accepting the position, the Chairman has acknowledged that it will require a significant time commitment and has confirmed that other positions will not hinder his effective performance in the role of Chairman.

The Chairman's role and responsibilities are separate from those of the Chief Executive Officer. The Chairman is the key link between the Chief Executive Officer and the other Directors and is responsible for effective collaboration between them.

### Induction

The induction provided to new Directors and senior managers enables them to actively participate in Board decision-making as soon as possible. It ensures that they have a full understanding of the Company's financial position, strategies, operations and risk management policies. It also explains the respective rights, duties, responsibilities and roles of the Board and senior executives.



## **PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE** (CONTINUED)

### **Commitment**

The number of meetings of the Company's Board of Directors and of each Board committee held during the year ended 31 December 2010, and the number of meetings attended by each Director is disclosed on page 37.

It is the Company's practice to allow its executive Directors to accept appointments outside the Company with prior written approval of the Board. Details of current directorships are noted in the Directors' profiles on pages 34 and 35 in this Annual Report.

The commitments of non-executive Directors are considered by the Remuneration and Nominations Committee prior to the Directors' appointment to the Board of the Company and are 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.

### **Non-executive Directors**

Non-executive Directors hold a private session without any executive involvement as part of each Board meeting to discuss the operation of the Board and a range of other matters. Relevant matters arising from these meetings are shared with the full Board.

### **Term of office**

Each non-executive Director is elected for a three-year term (unless otherwise required to be re-elected earlier due to the rotational policy contained in the Company's Constitution), which is renewable for further periods on the review and approval of the other Directors, and re-election by shareholders at an Annual General Meeting.

### **Conflicts of interest**

In accordance with the Board Charter and the Corporations Act 2001, any Director with a material personal interest in a matter being discussed by the Board must declare such an interest.

Any Director who has an actual or perceived material conflict, or potential conflict, does not, at the discretion of the Board, receive any papers from the Company pertaining to those matters, or participate in any meeting to consider, or vote, on the matter giving rise to that conflict.

### **Independent professional advice**

Directors have a right of access to Company employees, advisors and records. In carrying out their duties and responsibilities, Directors have access to advice and counsel from the Chairman and Company Secretary, and are able to seek independent professional advice – at the Company's expense; after consultation with the Chairman.

### **Performance reviews**

The Board undertakes an annual self assessment of the performance of the whole Board and Board committees. The process involves each Director completing a questionnaire, which enables Directors to raise any issues relating to the Board or a Board Committee. The results are discussed by the whole Board, where initiatives to improve or enhance Board performance and effectiveness are considered and recommended.

The Chairman assesses the performance of other individual Directors and provides feedback to them.

A performance review of the Board and Board committees was undertaken in November 2010.

### **Board committees**

To assist it in undertaking its duties, the Board has established an Audit and Risk Committee and a Remuneration and Nominations Committee.

Each committee has a Board-approved charter setting out its corporate governance roles and responsibilities, composition, structure, membership requirements and operation. Committee meeting minutes are prepared and available to all Board members. The Committees report back to the Board on specific matters and areas of responsibility outlined in the committee charters.

The latest charter for each committee is available on the Company's website, [www.stwgroup.com.au](http://www.stwgroup.com.au).

The Audit and Risk Committee comprises:

Graham Cubbin (Chair)  
Robert Mactier  
Ian Tsicalas.

The Remuneration and Nominations Committee comprises:

Ian Tsicalas (Chair)  
Russell Tate  
Kim Anderson (appointed 10 February 2011)  
Anne Keating (resigned 10 February 2011).

Details of Directors' attendance at meetings throughout the period are set out in the Directors' Report on page 37.



# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

## PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE (CONTINUED)

### Nomination and appointment of Directors

The Board's Remuneration and Nominations Committee recommends new Directors and manages the process for identifying and appointing those new Directors. The Remuneration and Nominations Committee's charter is available on the Company's website.

The Committee comprises three Directors, a majority of whom are independent and is chaired by an independent Director. Details of these Directors' attendance at Remuneration and Nominations Committee meetings are set out in the Directors' Report on page 37.

When a new Director is to be appointed, the Committee reviews the range of skills, experience, expertise and diversity on the Board, identifies its needs and prepares a short-list of candidates with appropriate skills and experience.

The full Board will appoint the most suitable candidate who must stand for election at the next Annual General Meeting of the Company. The Board's nomination of existing Directors for reappointment is not automatic and is contingent on their past performance, contribution to the Company and the current and future needs of the Board and Company.

New Directors are provided with a letter of appointment setting out the Company's expectations, their responsibilities, their rights and the terms and conditions of their employment. All new Directors participate in a comprehensive, formal induction program which covers the operation of the Board and its committees and financial, strategic, operations and risk management issues

## PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

### Code of conduct

The Board has adopted a Corporate Code of Conduct which applies to all employees of the Group and a Code of Conduct for Directors and senior executives. The Company has developed and implemented policies governing Director and employee conduct that articulates the standards of honest, ethical and law-abiding behaviour expected by the Company.

Employees are actively encouraged to bring any problems to the attention of management or the Board, including activities or behaviour which may not comply with the Code of Conduct, other policies in place or regulatory requirements or laws.

A summary of the Corporate Code of Conduct and Code of Conduct for Directors and senior executives is available on the Company's website.

### Share Trading Policy

The Company's Share Trading Policy concerning trading in Company securities allows Directors and senior executives to deal in STW Group securities during the one-month period beginning at the close of trading on the day after the Company:

- (i) announces its half-yearly results to the ASX;
- (ii) announces its full-year results to the ASX; and
- (iii) holds its Annual General Meeting.

All Directors and employees are prohibited from trading in STW Group securities at any time if they possess price-sensitive information not available to the market and which could, reasonably, be expected to influence the market.

Directors and senior management must give the Chairman and Company Secretary prior notice of any proposed dealing in STW Group securities. The ASX, and all other Directors, are notified of any transactions by a Director in Company securities. Each Director has an agreement to provide information to enable notification to the ASX of any share transaction within three business days.

The Share Trading Policy is available on the Company's website.

### Gender diversity

The Company is focusing on maintaining an appropriate level of diversity across all levels of its workforce. The Company's actions will be guided by maintaining its current high standards of competence and performance.

The levels of gender diversity as at 31 December 2010 are set out below:

Gender diversity	Male	Female
Total employees	51%	49%
Senior managers	64%	36%
Board	90%	10%

The Board has set a target to maintain the strong level of gender diversity across the Group. It is the responsibility of the Remuneration and Nominations Committee to review on an annual basis the objectives in relation to achieving gender diversity and to measure the achievement of these objectives.

## PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

### Audit and Risk Committee

The Board has the responsibility to ensure truthful and factual presentation of the Company's financial position. The Board has established the Audit and Risk Committee to oversee the structure and management systems that ensure the integrity of the Company's financial reporting.



The Audit and Risk Committee consists of the following non-executive Directors:

Graham Cubbin (Chair)  
Rob Mactier  
Ian Tsicalas.

The Audit and Risk Committee consists only of non-executive Directors, including a majority of independent Directors. The Chairman of the Board cannot chair the Audit and Risk Committee. Committee members have financial expertise and understand the industries in which the Company operates. The details of the members' qualifications are set out on pages 34 and 35 in this Annual Report.

The Committee meets at least three times per year, and during 2010 met three times. An agenda is prepared, and papers circulated to Committee members, before each meeting. The Company's external auditor attends committee meetings, with management attending at the Committee Chairman's invitation.

The main responsibilities of the committee are to:

- review, assess and approve the annual full year financial report, the half-year financial report and all other financial information published by the Company or released to the market;
- oversee the effective operation of the risk management framework;
- review the independence of the external auditor, including the nature and level of non-audit services provided, and report on this issue to the full Board;
- recommend to the Board the appointment, removal and remuneration of the external auditors, review the terms of their engagement, the scope and quality of the audit and assess performance; and
- report to the Board on matters relevant to the Committee's role and responsibilities.

In fulfilling its responsibilities, the Audit and Risk Committee:

- receives regular reports from management and external auditors;
- meets with the external auditors at least twice a year, or more frequently if necessary;
- reviews the processes the Chief Executive Officer and Chief Financial Officer have in place to support their certifications to the Board;
- reviews any significant disagreements between the auditors and management irrespective of whether they have been resolved;
- meet at least twice a year separately with the external auditors without executive Directors or management present; and
- provides the external auditors with a clear line of direct communication at any time to either the Chair of the Audit and Risk Committee or the Chairman of the Board.

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

The Audit and Risk Committee's charter is available on the Company's website.

#### **Independent external auditor**

The Company and Audit and Risk 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.

The Company's independent external auditor is Deloitte Touche Tohmatsu ("Deloitte"). The appointment of Deloitte was ratified by members at the Annual General Meeting held on 18 May 2007. External auditors will be required to rotate the lead engagement partner assigned to the Company every five years.

The external auditor will attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

#### **PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE**

The Company has written policies and procedures on information disclosure that focus on continuous disclosure of any information concerning the Group that a reasonable person would expect to have a material effect on the price of the Company's securities.

The Company Secretary has been nominated as the person responsible for communications with the ASX. This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing and co-ordinating information disclosure to the ASX, the media and the public.

The Board has approved and implemented a Market Disclosure Protocol. The Protocol is designed to ensure compliance with the Corporations Act 2001 and ASX Listing Rules continuous disclosure requirements. The Company has a Market Disclosure Committee which is responsible for:

- making decisions on what should be disclosed publicly under the Market Disclosure Protocol;
- maintaining a watching brief on information; and
- ensuring disclosure is made in a timely and efficient manner.

The Market Disclosure Protocol is available on the Company's website.



# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

## PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

### Shareholder communication

The Company is committed to providing regular communication to shareholders and other investors so that they have all available information reasonably required to make informed assessments of the Company's strategy, operations and financial performance.

All information disclosed to the ASX is posted on the Company's website as soon as it is disclosed to the ASX. When analysts are briefed on aspects of the Group's operations, the material used in the presentation is released to the ASX and posted on the Company's website.

The Company also publishes annual and half-yearly reports, announcements, media releases and other information on its website at [www.stwgroup.com.au](http://www.stwgroup.com.au). The Company's website contains all recent announcements, presentations, past and current reports to shareholders, notices of meeting and archived webcasts of general meetings and investor presentations.

Internet webcasting is provided for market briefings to encourage participation from all stakeholders regardless of their location. Where practical, the Company maintains a record of issues discussed at group or one-on-one briefings with investors and analysts, including a list of who was present and the time and place of meeting. Annual and half-yearly reports are provided to shareholders other than those who have requested not to receive a copy. Shareholders may elect to receive all Company reports electronically.

## PRINCIPLE 7: RECOGNISE AND MANAGE RISK

The management of risks is fundamental to the Company's business and building shareholder value. The Board recognises a broad range of risks which apply to the Company as a marketing communications group including, but not limited to strategic, operational, compliance, reputational and financial risks.

The Board is responsible for determining the Group's risk management strategy. Management is responsible for implementing the Board's strategy and developing policies and procedures to identify, manage and mitigate risks across the whole of the Group's operations.

An executive risk committee has been established to provide operational oversight of the risk management framework.

Management reports to the Audit and Risk Committee on the Company's material risks and the extent to which they believe they are being managed. This is performed twice a year, or more frequently as required by the Committee.

As part of ongoing management review, a detailed, company-wide internal control questionnaire is completed annually, reviewed by senior management and reported to the Audit and Risk Committee. A review of major risks is undertaken for all corporate and operational activities.

Major risks are reported to the Board, along with controls and risk mitigation plans.

## Corporate reporting

When presenting financial statements for Board approval, the Chief Executive Officer and Chief Financial Officer provide a formal statement indicating that:

- the financial statements present a true and fair view in all material respects of the Group's financial condition and operational results, and are in accordance with the relevant accounting standards;
- the financial statements are founded on a sound system of risk management and internal compliance and control, which implements policies adopted by the Board; and
- risk management and internal control systems are sound and operating effectively in all material respects.

The assurance forms part of the process by which the Board determines the effectiveness of its risk management and internal control systems in relation to financial reporting risks.

## PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

The Board has established a Remuneration and Nominations Committee comprising of a majority of independent Directors, having at least three members and chaired by an independent Director as follows:

Ian Tsicalas (Chair)

Russell Tate

Kim Anderson (appointed 10 February 2011)

Anne Keating (resigned 10 February 2011).

The Remuneration and Nominations Committee's charter is available on the Company's website, and further information is provided in the Remuneration Report on pages 41 to 54.

The Remuneration and Nominations Committee advises the Board on remuneration and incentive policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for executive Directors, other senior executives and non-executive Directors.

STW's policy, contained in the Share Trading Policy, prohibits an executive from entering into a transaction that is designed or intended to hedge that component of their unvested remuneration which is constituted by STW shares.

It is the Company policy to prohibit margin lending over STW shares by Directors and senior executives.

The remuneration of non-executive Directors is structured separately from that of the executive Directors and senior executives. Further information on the Group's remuneration policies and practices, along with remuneration details for the Group's key management, five highest-paid executives and non-executive Directors, are contained in the Remuneration Report on pages 41 to 54.