

# 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 to stakeholders and enhances investor confidence.

The Company acknowledges the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations ("Guidelines") released in August 2007. This report provides details of the Company's compliance with those recommendations, or where appropriate, indicates a departure from the Guidelines with an explanation.

The Company's corporate governance policies were updated during 2008 and the policies are contained on STW's website [www.stwgroup.com.au](http://www.stwgroup.com.au). This statement reflects the Company's corporate governance system in place during the calendar year ended 31 December 2008 and as at the date of this report.

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

### 1.1 The Board of Directors

The Board of Directors is made up of four independent non-executive Directors, three non-executive non-independent Directors and one executive Director – the Managing Director. Directors' profiles – with details of Directors' skills, experience and special expertise – are on page 12 and 13 and are also contained on the Company's website, [www.stwgroup.com.au](http://www.stwgroup.com.au).

ASX Recommendations 2.1, 2.6

### 1.2 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.

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

ASX Recommendation 1.1

### 1.3 Senior executive induction and review

New executives joining STW undertake an induction program, including meeting key staff and a comprehensive briefing on the Company's businesses, and its policies and procedures.

The Board assesses the Managing Director's performance. This includes a review of the financial performance, growth, the economic and business environment and other achievements.

The performance evaluation of key executives is undertaken by the Board, in conjunction with the Chief Executive Officer on both a formal regular and informal ongoing basis.

STW sets financial and non-financial key performance indicators for all senior executives. Each senior executive's performance is reviewed, at least annually, against the relevant performance indicators.

The Remuneration and Nominations Committee considers the performance of the Managing Director 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 15 to 28.

ASX Recommendation 1.2

## PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

### 2.1 Board structure

The Directors determine the Board's size and composition, within the limits set by the Company's constitution, which requires the Board to comprise of between three and ten Directors. As at 31 December 2008, the Board had eight Directors – four independent non-executive Directors, three non-executive non-independent Directors and one executive Director – the Managing Director.

The current composition of the Company's Board is a departure from ASX Recommendation 2.1, which requires a majority of the Board to be non-executive and independent. The Board has determined that the composition of the current Board represents the best mix of Directors that have an appropriate range of skills, experience and expertise, 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.

ASX Recommendations 2.1, 2.6

### 2.2 Role of the Chairman

The Chairman provides leadership to the Board and promotes the efficient organisation and effective conduct of the Board's functions. They arrange for Directors to receive Board and committee papers before all meetings and facilitate effective contribution and ongoing development of all Directors.

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

ASX Recommendation 2.2 states that the Chairman should be an independent Director. Russell Tate, a non-independent, executive Director held the position of Chairman until 1 July 2008. The Board appointed Robert Mactier, an independent, Non-executive Director, as Chairman with effect from 1 July 2008. Up until his resignation as Chairman, the Board viewed Mr Tate as the best qualified Director to be the Chairman

# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

in light of his industry specific experience and depth of knowledge of the operations of the Company.

ASX Recommendations 2.2, 2.3, 2.6

## 2.3 Directors independence

The Board has adopted an independence policy contained in the Board Charter that states an independent Director should be independent of management and 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 unfettered and independent judgement. In defining the characteristics of an independent Director, the Company's Board uses the ASX Recommendations and guidelines, together with its own consideration of the Company's operations and businesses.

The Board will regularly consider and assess the independence of each Director in light of the interest and information which Directors disclose. In accordance with the Corporations Act 2001, Directors are required to advise the Company of any material personal interest they have in a matter.

The full definition used to determine Director independence is available within the Board Charter contained on our website.

ASX Recommendations 2.1, 2.6

## 2.4 Meetings and the Board's work

During the year, the Board meets formally approximately every six weeks. In addition, the Board may meet whenever necessary to deal with specific matters needing attention in between scheduled meetings.

An agenda is prepared for each Board meeting by the Managing Director, Chairman and Company Secretary to ensure operational, financial and strategic issues are addressed. Senior executives are invited to attend Board meetings where appropriate and are available for contact by non-executive Directors between meetings.

Non-executive Directors hold a private session without any executive involvement as part of each Board meeting.

ASX Recommendation 1.1

## 2.5 Access to information and 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 to seek independent professional advice – at the Company's expense – after consultation with the Chairman.

As approved by shareholders, the Company has a deed of access with each Director that gives them a right of access to all documents provided during their time in office, for seven years after they cease to be a Director.

ASX Recommendation 2.6

## 2.6 Board committees

To assist it in undertaking its duties, the Board has established an Audit and Risk Committee and 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)  
Anne Keating  
Russell Tate.

Details of Directors' attendance at meetings throughout the period is set out in the Directors' Report.

ASX Recommendations 2.4, 4.1, 4.3, 8.1

## 2.7 Nomination of Directors and Board renewal

The Remuneration and Nominations Committee provides support and advice to ensure that the Board is comprised of Directors who are best able to discharge the required responsibilities by:

- assessing the skills required of Directors;
- conducting Board reviews;
- establishing processes to identify suitable Directors; and
- recommending Directors' appointment.

The Committee met four times during 2008. The Remuneration and Nominations Committee's charter is available on the Company's website.

ASX Recommendations 2.4, 2.6

The Board recognises the importance of regular renewal through review of its membership. The Board's Remuneration and Nominations Committee recommends new Directors and manages the process for identifying and appointing those new Directors.

The Committee recommends new Directors to the full Board, which considers the proposed appointments in light of the Board's requirements. The criteria for nominees to the Board include:

- outstanding capability and business acumen with broad senior commercial experience;
- cultural fit with the existing Board;
- high personal integrity and an enquiring mind;
- an independent mind, and no conflicts that may affect their ability to act independently; and
- the time to meet the required commitment.

In addition, the composition of the Board should be such that the Directors can work together effectively to combine and leverage their skills, knowledge and experience to lead the Company in generating shareholder value and meeting other stakeholder expectations.

In seeking candidates, the Remuneration and Nominations Committee can engage consultants to identify or assess applicants.

New Directors are provided with a letter of appointment, which sets out their rights and responsibilities, and their employment terms and conditions. New Directors undergo an induction program during which they are briefed by management on financial, strategic, operational and risk management issues.

The Company's constitution provides for new Board-appointed Directors to stand for election by shareholders at the next Annual General Meeting, and for all Directors – other than the managing Director – to stand for re-election every three years. An election of Directors is held at each Annual General Meeting.

ASX Recommendations 2.4, 2.6

## 2.8 Board performance reviews

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 terms on the review and approval of the other Directors, and re-election by shareholders at an Annual General Meeting.

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 Chairman will discuss the questionnaire with each Director individually, then 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 individual Directors and provides feedback to them.

A performance review of the Board and Board committees was undertaken in November 2008.

ASX Recommendations 2.5, 2.6

## PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

### 3.1 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 our website.

ASX Recommendations 3.1 and 3.3

### 3.2 Avoidance of 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.

ASX Recommendation 3.1

### 3.3 Securities dealings

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

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

All Directors and employees are prohibited from trading in STW 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 Company Secretary prior notice of any proposed dealing in STW 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.

ASX Recommendations 3.2, 3.3

## PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

### 4.1 Audit and Risk Committee

The Audit and Risk Committee oversees the structure and management systems that ensure the integrity of the Company's financial reporting.

The Audit and Risk Committee consists only of Non-executive Directors, including a majority of independent Directors. The Chairman of the

# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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 12 and 13 in this report.

The Committee meets at least three times per year, and during 2008 met three times. An agenda is prepared, and papers circulated to Committee members before each meeting. STW's external auditor attends committee meetings, with management attending at the committee chairman's invitation.

The Audit and Risk Committee reviews the Company's annual and half-yearly financial reports and makes recommendations to the Board on adopting financial statements. The Committee provides additional assurance to the Board with regard to the quality and reliability of financial information. The Committee has the authority to seek information from any employee or external party.

The external auditors have direct access to the Audit and Risk Committee Chairman. Following each scheduled meeting, they meet separately with the Committee without executive Directors or management present.

The Committee reviews the independence of the external auditor, including the nature and level of non-audit services provided, and reports on this issue to the full Board.

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

ASX Recommendations 4.1, 4.2, 4.3, 4.4

## 4.2 External auditor

The external auditor is a key protector of shareholders' interests. Accordingly, the Company requires its independent audits to:

- provide stakeholders with assurance over the true and fair view of the financial report; and
- ensure that accounting practices comply with applicable accounting rules and policies.

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 engagement partner assigned to the Company every five years.

ASX Recommendation 4.3

## PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURES

The Company is committed to providing relevant information about its operations to all shareholders and to fulfil its duties to comply with its continuous disclosure obligations to the market generally.

The Board has approved and implemented 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 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). Internet webcasting is provided for market briefings to encourage participation from all stakeholders regardless of their location. The Company is also encouraging greater use of electronic media by providing shareholders with greater access to the electronic receipt of reports and meeting notices.

The Company Secretary has the primary responsibility for communication with the ASX in relation to compliance with listing rules.

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

ASX Recommendations 5.1, 5.2

## PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

### 6.1 Shareholder communication

STW 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 STW's strategy, operations and financial performance.

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.

STW'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.

ASX Recommendation 6.1

### 6.2 General meetings

STW encourages shareholders to participate in all general meetings. It respects a shareholder's right to ask questions about the management of the Company and of the auditor as to its conduct of the audit and preparation of its report. It requires its external auditor to attend the Annual General Meetings and be available to answer questions about the preparation and content of the auditor's report.

Notices of meeting for general meetings are accompanied by an explanatory memorandum to provide shareholders with information to enable them to decide whether to attend and how to vote upon the business of the meeting. Full copies of the notice of meeting and the explanatory memorandum are posted on the Company's website. Shareholders are encouraged to attend but if they cannot they may vote by appointing a proxy using a form attached to the notice of meeting.

ASX Recommendations 6.1, 6.2

## PRINCIPLE 7: RECOGNISE AND MANAGE RISK

The management of risks is fundamental to the Company's business and building shareholder value.

Management is responsible for designing, implementing and reporting on the adequacy of the Company's risk management and internal control system. 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 annually, or more frequently as required by the Committee.

The Board is responsible for seeing that there are appropriate policies in relation to risk management and internal control systems. Policies are designed to identify, assess, address and monitor strategic, operational, legal, reputational and financial risks to enable STW to achieve its business objectives. Specific risks are covered by insurance and Board-approved policies for hedging of interest rates.

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 wide 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.

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

- the financial statements present a true and fair view in all material respects of STW'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.

This process was completed in February 2008 and August 2008 in conjunction with the year-end and half-year reporting.

ASX Recommendations 7.1, 7.2, 7.3 and 7.4

## PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

### 8.1 Remuneration and Nominations Committee

The Remuneration and Nominations Committee ensures that remuneration is consistent with market practice and that the Company can attract, develop and retain valued employees. The Committee invites the Managing Director to meetings, as required, to discuss senior executives' performance and remuneration.

The Committee reviews remuneration for the Managing Director and senior executives annually, against Company and individual performance and makes recommendations to the Board.

The Committee also oversees preparation of the Remuneration Report, supporting governance procedures, and Company policy on remuneration including general remuneration practices, performance management, share plans and incentive schemes, superannuation and recruitment and termination.

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 15 to 28.

ASX Recommendation 8.1

### 8.2 Executive remuneration

The Board, through the Remuneration and Nominations Committee, ensures that executive remuneration is fair and reasonable, having regard to the need to attract, retain and develop talented people, and deliver value to shareholders.

The remuneration of senior executives may be comprised of the following:

- fixed salary that is determined from a review of the market and reflects core performance requirements and expectations;
- short-term incentive plan – a cash-based incentive plan paid annually and designed to reward the achievement of individual of performance objectives and financial performance; and
- long-term incentive plan – an equity-based remuneration for senior executives. The payment of equity based remuneration is made within the thresholds set by the STW executive share plan approved by shareholders on 25 May 2004.

By remunerating senior executives through performance and long-term incentive plans in addition to their fixed remuneration the Company aims to align the interests of senior executives with those of shareholders and increase Company performance.

Further information on STW's remuneration policies and practices, along with remuneration details for STW's key management and five highest-paid executives, are contained in the Remuneration Report on pages 15 to 28.

ASX Recommendations 8.1, 8.2, 8.3

### 8.3 Non-executive Directors' remuneration

Information on remuneration for non-executive Directors is in the Remuneration Report on pages 15 to 28.

ASX Recommendation 8.2