

## **Corporate governance statement**

CO2 Group Limited (the Company) and the board are committed to achieving and demonstrating the highest standards of corporate governance. The board continues to review the framework and practices to ensure they meet the interests of shareholders. The company and its controlled entities together are referred to as the Group in this statement.

As has been noted in previous financial reports and on the Company's web site the board acknowledges the Principles of Good Corporate Governance and Best Practice Recommendations set by the Australian Stock Exchange ("ASX") Corporate Governance Council. The board, since the last full year Financial Report, has continued to monitor those areas of the Best Practice Recommendations which had not been adopted. The board continues to hold the view that with the company's current size and extent and nature of operations that full adoption of the best practice recommendations is currently not practical. The board will continue to work towards full adoption of the recommendations in line with the growth and development of the company in the years ahead. The board does actively monitor the ASX corporate governance recommendations as the company changes in profile and size. They comply with the ASX Corporate Governance Principles and Recommendations.

The relationship between the board and senior management is critical to the Group's long-term success. The directors are responsible to the shareholders for the performance of the Group in both the short and the longer term and seek to balance sometimes competing objectives in the best interests of the Group as a whole. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Group is properly managed.

## **Responsibilities**

The responsibilities of the board include:

- providing strategic guidance to the Group including contributing to the development of and approving the corporate strategy
- reviewing and approving business plans, the annual budget and financial plans including available resources and major capital expenditure initiatives
- overseeing and monitoring:
  - organisational performance and the achievement of the Group's strategic goals and objectives
  - compliance with the company's Code of conduct (see page 38)
  - progress in relation to the company's diversity objectives and compliance with its diversity policy
- monitoring financial performance including approval of the annual and half-year financial statements and liaison with the company's auditors
- appointment, performance assessment and, if necessary, removal of the Chief Executive Officer
- enhancing and protecting the reputation of the organisation
- overseeing the operation of the Group's system for compliance and risk management reporting to shareholders

## **Responsibilities (continued)**

### **The Roles of the Board and Management**

The company is currently managed by the executive directors and as a consequence there has been no separation of duties.

The board operates in accordance with the broad principles set out in its charter which is available from the corporate governance section of the company website at [www.co2australia.com.au](http://www.co2australia.com.au). The charter details the board's composition and responsibilities.

### **Board composition**

- The board shall comprise at least three and not more than ten directors. The size of the board will take account of the desired mix of skills and experience levels required to discharge its responsibilities;
- The current board has the broad experience and expertise of four executive directors and one non-executive director. The composition of the board is not consistent with recommendation 2.1 of the ASX Corporate Governance Council ("CGC") in that a majority of the board does not comprise independent directors. The size of the company, its specialised non-complementary businesses and its geographic markets places a demand for a skills, knowledge and experience combination which is difficult to match without incurring unreasonable cost. The board holds the view that expanding the board to comply with the form of recommendation 2.1 would not necessarily add value and that in the short-term, the cost outweighs the benefits.
- The Chairman is elected by the full board. As the current Chairman is an executive director, the company's practice is not consistent with recommendation 2.2 of CGC. The Chairman was appointed a director of the company and Chairman in 2001. He has been instrumental in changing the strategic direction of the company and has in-depth knowledge of the Group's business. For a company of this size, it would be difficult to attract an independent Chairman of this calibre and experience.

The board seeks to ensure that:

- at any point in time, its membership represents an appropriate balance between directors with experience and knowledge of the Group and directors with an external or fresh perspective
- the size of the board is conducive to effective discussion and efficient decision-making.

### **Directors' independence**

The board has adopted specific principles in relation to directors' independence. These state that when determining independence, a director must be a non-executive and the board should consider whether the director:

- not be a substantial shareholder of the company or an officer of, or otherwise associated directly with, a substantial shareholder of the company

**Directors' independence (continued)**

- within the last three years, not have been employed in an executive capacity by the company or any other Group member, or been a director after ceasing to hold any such employment
- within the last three years not have been a principal of a material professional adviser or a material consultant to the company or any other Group member, or an employee materially associated with the service provided
- not be a material supplier or customer of the company or any other Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer
- must have no material contractual relationship with the company or a controlled entity other than as a director of the Group
- not have been on the board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company

Materiality for these purposes is determined on both quantitative and qualitative bases. An amount of over 5% of annual turnover of the company or Group or 5% of the individual directors' net worth is considered material for these purposes. In addition, a transaction of any amount or a relationship is deemed material if knowledge of it may impact the shareholders' understanding of the director's performance.

**Term of office**

The company's Constitution specifies that, apart from a Managing Director, one third of the board and/or any directors who have been in office for three or more years must retire from office at each annual general meeting ("AGM") and may seek re-election. Directors can hold office for a term of three years or up to the third AGM before having to retire and seek re-election.

**Chair and chief executive officer (CEO)**

The Chair 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 Chair 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 Chair.

The CEO is responsible for implementing Group strategies and policies. The board charter specifies that these are separate roles to be undertaken by separate people.

**Commitment**

The board held eleven board meetings during the year.

The number of meetings of the company's board of directors and of each board committee held during the year ended 30 September 2013, and the number of meetings attended by each director is disclosed on page 21.

### **Commitment (continued)**

The commitments of non-executive directors are considered by the nomination committee prior to the directors' appointment to the board of the company and are reviewed each year as part of the annual performance assessment.

### **Independent professional advice**

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

### **Performance assessment**

The Chairman reviews the performance of the board and the performance of individual directors. The board intends to implement a formal process for the review and appraisal of the overall performance of the board and individual directors.

### **Board committees**

The board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the board are the remuneration and audit committees. The committee structure and membership is reviewed on an annual basis. A policy of rotation of committee members applies.

Each committee has its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. All of these charters are reviewed on an annual basis and are available on the company website. All matters determined by committees are submitted to the full board as recommendations for board decisions.

### **Nomination committee**

The company does not have a nomination committee. Given the size of the current board, the board does not consider it necessary to maintain a formal nomination committee. This is not consistent with recommendation 2.4 of CGC which is not considered practical as the board can properly address this function without the need to delegate to a committee.

The membership of the board is reviewed by the existing board on a continuous basis.

The board as a whole is responsible for establishing criteria for board membership, reviewing board membership and nominating directors.

The main criteria for the appointment of directors are expertise, experience and qualifications which will contribute to the competent and efficient operation of the board.

The appointment and retirement of non-executive directors is reviewed by the board on a continuous basis.

### **Remuneration committee**

The board appointed a Remuneration Committee on 15 December 2005. The current members of the Committee are:

**Remuneration committee (continued)**

Mr P Favretto (Chairman) - Non-executive director.  
Mr I Trahar - Executive director  
Dr C Mitchell - Executive director

Details of these directors' attendance at remuneration committee meetings are set out in the directors' report on page 21.

The remuneration committee operates in accordance with its charter which is available on the company website. The remuneration 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, and other senior executives.

The full board has retained full responsibility for determining the remuneration of non-executive directors. The full board elected to approve the issue of unlisted options to the two non-executive directors appointed in July 2005. The issue of the options was approved by shareholders at the general meeting after their appointment.

The issue of options to non executive directors is not consistent with the guidelines to recommendation 9.3 of CGC, however the board considered the issue of options in the circumstances to be in the best interests of shareholders in lieu of more substantial cash fees.

Further information on directors' and executives' remuneration, including principles used to determine remuneration, is set out in the directors' report under the heading "Remuneration report". In accordance with group policy, participants in equity-based remuneration plans are not permitted to enter into any transactions that would limit the economic risk of options or other unvested entitlements. Details of this policy can be found on the company's website.

**Code of conduct**

The company has developed a statement of values and a Code of Conduct (the Code) which has been fully endorsed by the board and applies to all directors and employees. The Code is regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Group's integrity.

In summary, the Code requires that at all times all company personnel act with the utmost integrity, objectivity and in compliance with the letter and the spirit of the law and company policies.

The purchase and sale of company securities by directors and employees is not permitted during the periods between year and half-year end and the release of the half-yearly and annual financial results to the market. At all times, any transactions undertaken must be notified to the Company Secretary in advance.

The directors are satisfied that the Group has complied with its policies on ethical standards, including trading in securities.

### **Code of conduct (continued)**

A copy of the Code and the trading policy are available on the company's website.

### **Safeguard integrity in financial reporting**

The board appointed an Audit Committee on 15 December 2005. The current members of the Committee are:

Mr P Favretto (Chairman) - Non-executive director

Mr I Trahar - Executive director

Dr C Mitchell - Executive director

The structure of the audit committee is not consistent with recommendation 4.3 of the CGC in that it is not comprised solely of non-executive directors. The Company only has one non-executive director, and the size of the full board is five members. As the independent director and Dr Mitchell are not financial professionals, the board considered that the Chairman, who is also an executive director, should also be a member to ensure the Committee is balanced and has the desired technical expertise and industry knowledge.

The audit committee operates in accordance with a charter that is available on the company website. The main responsibilities of the committee are to:

- Ensure that an effective internal control framework exists within the company;
- Review the annual and half-year reports, financial statements and other information distributed externally;
- Review audit reports and letters to the Board from the external auditors;
- Liaise with external auditors ensuring that the annual audit and half-year review are conducted in an effective manner;
- Nomination of the external auditor and reviewing the adequacy of the scope and quality of the annual audit and half-year review; and
- Monitor compliance with the Corporations Act 2001, ASX Listing Rules, and other matters outstanding with other regulatory and financial authorities.

### **External auditors**

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

An analysis of fees paid to the external auditors is provided in note 29 to the financial statements.

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.

### **Continuous disclosure and shareholder communication**

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. These policies and procedures also include the arrangements the company has in place to promote communication with shareholders and encourage effective participation at general meetings. A summary of these policies and procedures is available on the company's website.

The Company Secretary has been nominated as the person responsible for communications with the Australian Stock Exchange (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, analysts, brokers, shareholders, the media and the public.

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 web site. Procedures have also been established for reviewing whether any price sensitive information has been inadvertently disclosed and, if so, this information is also immediately released to the market.

All shareholders receive a copy of the company's annual and half yearly reports, either via mail or by electronic means if they so wish. In addition, the company seeks to provide further opportunities for shareholders to participate through electronic means. Initiatives to facilitate this include making all company announcements, media briefings, details of company meetings, press releases for the last three years and financial reports for the last five years available on the company's website.

### **Recognise and manage risk**

The board, through the audit committee, is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. These policies are available on the company website. In summary, the company policies are designed to ensure strategic, operational, legal, reputational, and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of the Group's business objectives.

Considerable importance is placed on maintaining a strong control environment. There is an organisation structure with clearly drawn lines of accountability and delegation of authority. Adherence to the Code of Conduct (see page 38) is required at all times and the board actively promotes a culture of quality and integrity.

### **Corporate reporting**

The CEO and CFO have made the following certifications to the board:

**Corporate reporting (continued)**

- that the company's financial statements are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the company and Group and are in accordance with relevant accounting standards
- that the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board and that the company's risk management and internal compliance and control is operating efficiently and effectively in all material respects in relation to financial reporting risks.