

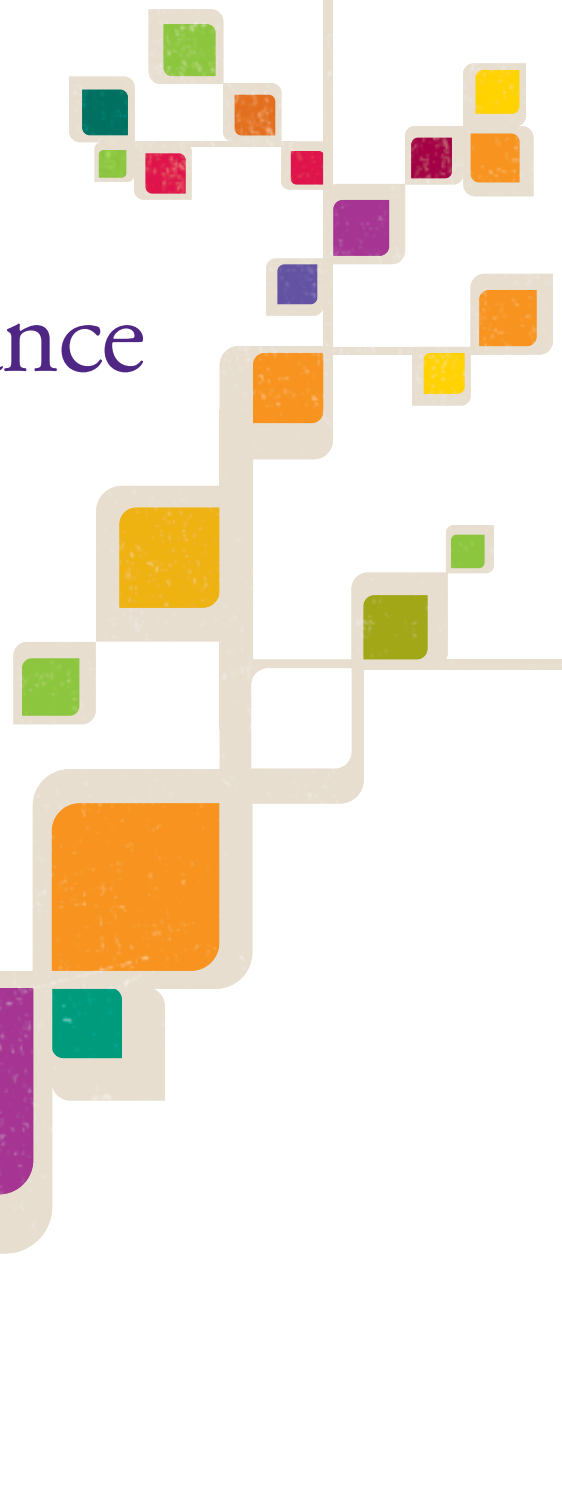


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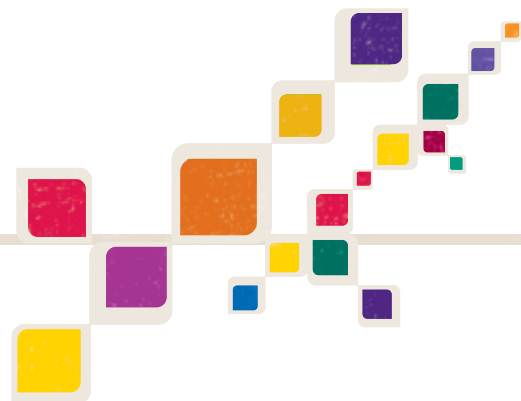
Corporate governance reporting review

2013



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Key findings

01. Overall there are high levels of compliance with the “if not why not” approach to reporting on corporate governance
 - More than 90% of the ASX500 comply with Recommendations 1,4,5,6 and 7
 - More than 80% of the ASX500 comply with Recommendations 2,3 and 8
02. Compliance with the revised Recommendation 3 with regard to diversity has improved significantly (in prior years compliance was voluntary, but encouraged). However compliance with this recommendation still lags the other recommendations and so there is still room for further improvement.
03. Where full compliance with the recommendations is not achieved it is often due to Board structure, including:
 - 25% - Insufficient independent directors on the Board
 - 19% - Failure to have a nomination committee
 - 21% - Failure to meet remuneration committee membership criteria
 - 12% - Failure to meet audit committee membership criteria
 - 10% - Roles of Chairman and CEO combined
04. Despite the recent focus on diversity, women are still under represented in executive positions and directorships. Of the 3,065 directorships within the top 500 ASX listed companies, only 338 were held by women, representing 11 %.
05. 47% of the ASX500 companies have all male Boards.
06. The remuneration “two strikes” policy was introduced in 2011 and 24 companies did not pass their remuneration resolutions in 2012.
07. Only two companies in the top 500 ASX listed companies received their second strike. Despite this, these same shareholders voted against a spill of the Board. No top 100 ASX listed company received a second strike.
08. Average audit fees for the ASX500 increased to \$1.1million (2011: \$952,000); an increase of 16%.
09. Average non-audit fees were \$545,000 (2011: \$358,000). The proportion of non-audit to audit fees was up to 49% (2011: 38%). However, out of the ASX500, 82 (2011:93) companies did not use their audit firms for non-audit services.
10. Integrated reporting is still evolving and only 9% of the ASX500 reported on all of the typical areas of occupational health and safety (OH&S), human resources (HR), the community, the environment and carbon emissions.

Foreword



ANDREW ARCHER
NATIONAL AUDIT LEADER
PARTNER - AUDIT & ASSURANCE

We are pleased to present Grant Thornton Australia's sixth review of the corporate governance disclosures of companies listed on the Australian Stock Exchange (ASX).

The results of our survey indicate that Australian listed companies, while on the whole in compliance with the principles and recommendations of the ASX, have room for improvement in the way that they structure their boards. It is pleasing to see a marked improvement in compliance with the revised Recommendation 3 concerning diversity which became effective this year, however we note that there is still some room for improvement as companies continue to develop better diversity policies and set measurable objectives regarding women in the workplace. Overall compliance with the ASX Corporate Governance Council's Recommendations was consistent with last year at 92% overall.

We have expanded our research this year to incorporate analysis of some more topical areas which have received recent media attention both in Australia and globally. These include:

- The roles of the chairman and CEO
- Gender diversity, particularly at Board level
- The remuneration resolution and "two strike policy"
- Auditor rotation and the continued pressure on audit fees

Our findings in these areas yielded some interesting results which we will continue to focus on in future reports to uncover emerging trends.

It is a common complaint that financial reporting is a cumbersome and often costly process. We are cognisant that annual reports are already hefty documents, often with well over 100 pages. The annual report may not always be the appropriate place to

include all the necessary detail required by the principles. Many companies consider their website to be a more meaningful place for such information.

There continue to be opportunities for progress in disclosures, particularly around the "if not, why not" provisions with many companies stating "except where stated, the company has complied with the principles and recommendations" but failing to accompany this with details of those recommendations that have not been complied with. This makes it challenging for users to assess compliance. The success of the "if not, why not" concept relies on the quality of explanations where companies choose not to comply, as well as the inclination of investors to challenge companies on their adopted policies and on their rationale for non-compliance.

We hope that you find this report informative.

Summary of changes

This year is the first time that we can fully assess compliance with the ASX Corporate Governance Council's Principles and Recommendations. Amendments relating to trading policies and diversity which were introduced in June 2010, and were applicable for the first financial year commencing on or after 1 January 2011. For the majority of the ASX 500, the 2010 amendments were not applicable until the financial year ending 30 June 2012 (i.e. annual reports published by September 2012). The reporting requirements for the Principles and Recommendations (other than the 2010 Amendments) apply to the company's first financial year commencing on or after 1 January 2008.

The 2010 amendments are summarised as followed:

Existing Recommendation	Revised Recommendation
Recommendation 3.2 Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.	Recommendation 3.2 Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.
Recommendation 3.3 Companies should provide information indicated in Guide to reporting on Principle 3.	Recommendation 3.3 Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.
	Recommendation 3.4 Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.
	Recommendation 3.5 Companies should provide information indicated in Guide to reporting on Principle 3.

In addition to the above amendments relating to diversity, the 2008 Recommendation 8.2 becomes 8.3 and the new Recommendation 8.2 reads:

“The remuneration committee should be structured so that it:

- consists of a majority of independent directors
- is chaired by an independent chair, and
- has at least three members.”

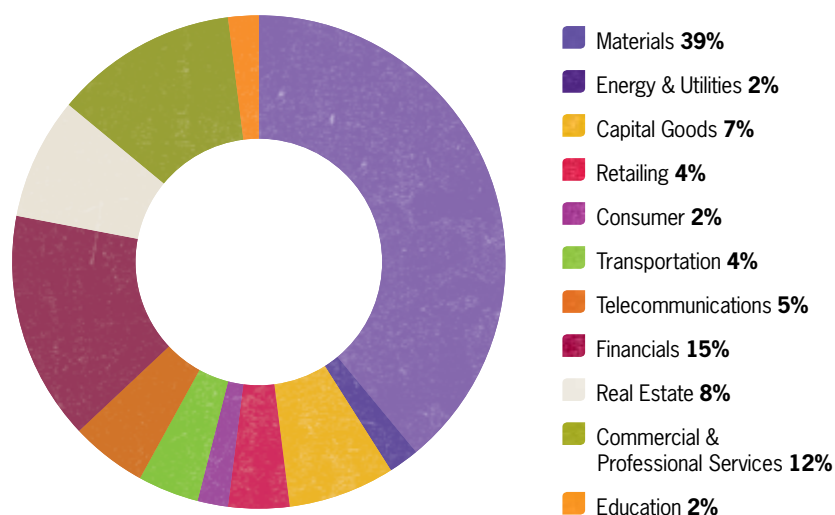


Methodology and participants

This Corporate Governance Report considers the annual reports of the Top 500 companies listed on the ASX for the year ended 30 June 2012 (or the nearest year-end date adopted such as 31 December 2012). Compliance is deemed where companies have properly disclosed information that demonstrates their achievement – or implementation – of the recommendation either in their Corporate Governance Statement Reports or where they have referred readers to other publicly accessible materials such as company websites. In order to obtain a more accurate reflection of the most up-to-date reporting regime, our study has excluded all delisted companies in 2012 (37 companies in total).

The majority (40%) of the companies we reviewed belong to the Materials sector which includes Mining and Resources. The Financial Services and Commercial Professional Service sectors also make up a substantial portion of the surveyed companies at 15% and 12% respectively.

ASX 500



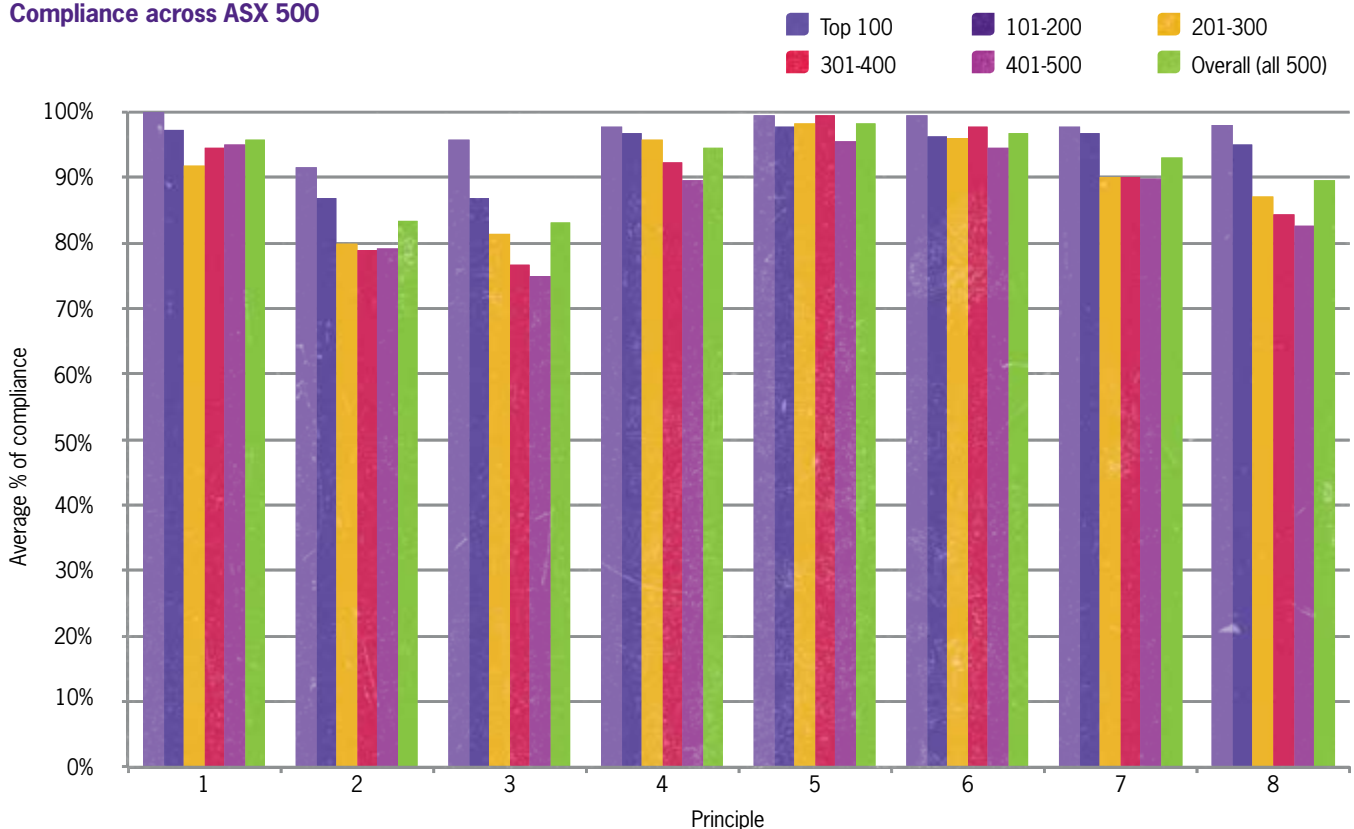
Overview

Although compliance with the ASX's Principles and Recommendations is not mandatory, they act as a set of practical guidelines for listed companies in regulatory and reporting affairs. Under Listing Rule 4.10.3, companies are required to disclose their compliance with the Principles and Recommendations and, in the event of non-compliance, the "if not, why not" approach is required. In its enforcement mechanisms, the ASX's Corporate Governance Principles and Recommendations are very different from legislation. The only penalties for non-compliance are those that stem from any breach of the Listing Rules.

Good corporate governance practices can facilitate robust decision making and improve accountability of those in governance and control. By requiring the "if not, why not" approach, the ASX has allowed companies to retain a degree of flexibility in determining an appropriate corporate governance approach.

We once again observe a general pattern of higher compliance levels with the Principles and Recommendations amongst the ASX Top 100. In the current year this is followed by the ASX Top 200 (compared to the ASX Top 300 in the prior year) and then ASX Top 500. This overall snapshot is relatively consistent with the prior year and the disparity in compliance levels between the different bands continues to be narrow, indicating consistently strong compliance in the smaller cap companies. Overall compliance with the eight Principles is 92% (2011: 92%). Principle 2, with its requirements for independence amongst Directors, and Principle 3 regarding diversity, particularly gender diversity, have lower than average compliance (both 83%).

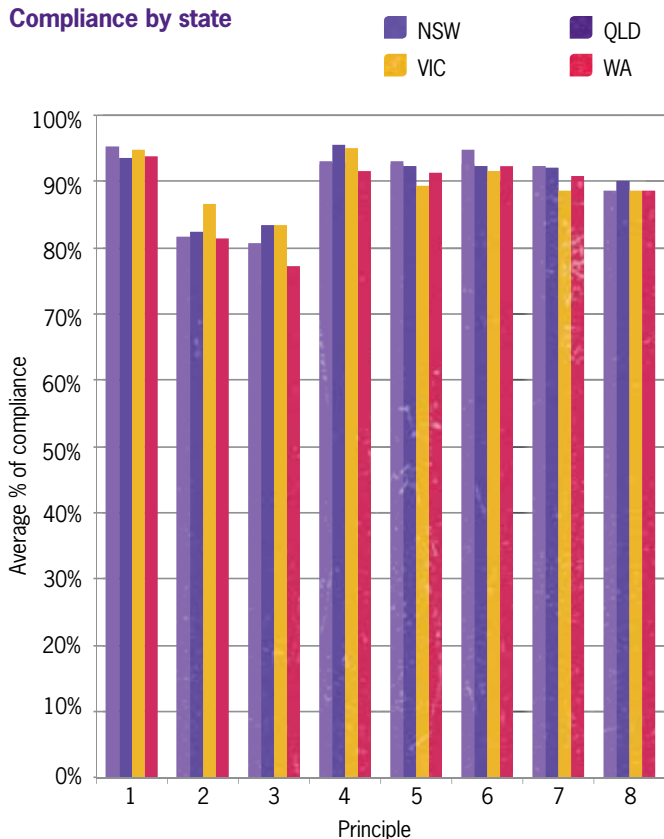
Compliance across ASX 500



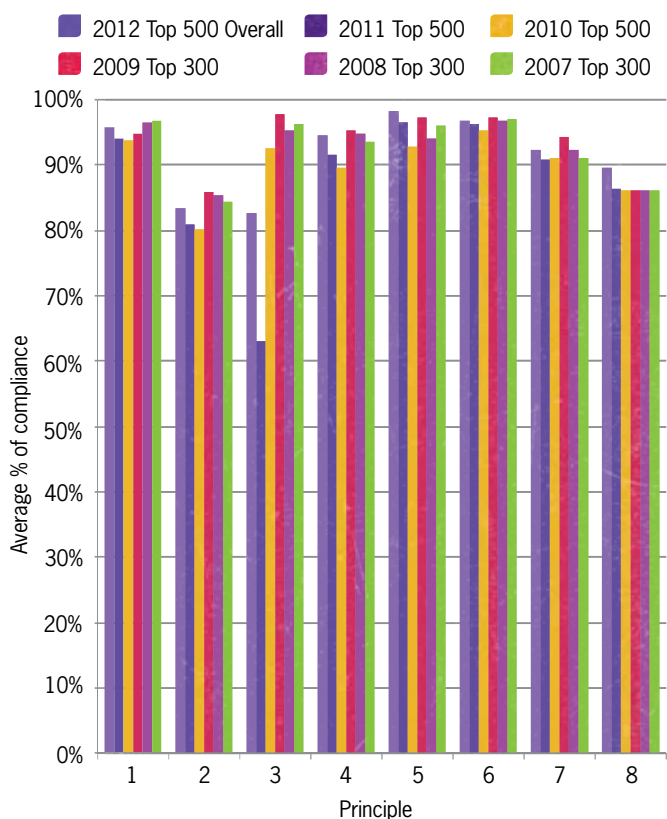
When we consider compliance by State/Territory, meaningful comparisons are difficult between South Australia, the ACT, Tasmania and the Northern Territory, due to the relatively small number of ASX 500 companies. However, when considering the remaining four states (New South Wales, Queensland, Victoria and Western Australia) there are slightly lower levels of compliance with the principles in Western Australia (88%) than in Victorian, New South Wales and Queensland. Registered entities in those states are demonstrating an equally high level of compliance (90%).

The mix of companies by State appears to continue to be the key driver for these disparities with Western Australia's domination by smaller resources companies the likely root of non-compliance.

Compliance by state



Compliance by year



The results of compliance by year show relative consistency from year to year, except for recommendation 3. This is due to the 2010 amendments coming into effect during the current financial year. As early adoption of the principal was encouraged, compliance in 2011 was assessed against the revised principals and as such the results in this year were significantly down. The current year results have shown a significant improvement as the new principals are adopted, but companies still have work to do to increase compliance to the level seen prior to the amendments.

Board make-up hinders full compliance

The structure of the Board and its committees and the independence of directors are key to Board performance. Where full compliance with the principles is not achieved, this is often due to Board structure:

- 25% - Insufficient independent directors on the board
- 19% - Failure to have a nomination committee
- 21% - Failure to meet remuneration committee membership criteria
- 12% - Failure to meet audit committee membership criteria
- 10% - Roles of Chairman and CEO combined

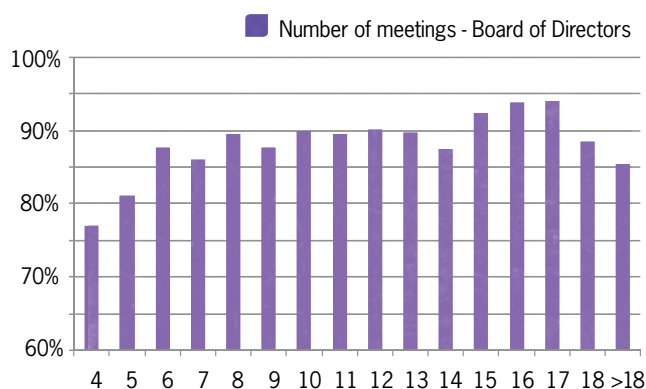
Number of meetings

As a requirement of Section 300 of the Corporations Act 2001, public companies must disclose in their Directors' Report the number of meetings of the Board of directors and each Board committee held during the year, and each director's attendance in those meetings. The average numbers of meetings held by the ASX 500 in 2012 as compared to the prior year are as follows:

Average number of meetings	2012	2011
Board of Directors	11	10
Audit Committee	4	4
Risk Management Committee	4	4
Remuneration Committee	3	3

There is generally an increasing level of compliance with the Corporate Governance Principles and Recommendations as the number of meetings of the Board increases. This increase is most noticeable where Boards are meeting six or more times per year. Interestingly, compliance drops slightly when Boards meet more than 18 times per year which could be caused by specific issues that these Boards are grappling with. These same issues may then be impacting on compliance.

Compliance & Number of meetings - Board of Directors



The roles of the Chairperson and CEO

The chairman has an important role in relation to Corporate Governance and for setting the tone at the top of a company as they are responsible for leadership of the board. Often the chairman is somebody who once had an executive role within the company or is a major shareholder. It is important that the appropriate person is chosen as chairman of the board. The role of CEO needs to be fulfilled by a leader who is prepared to demonstrate the company's values and responsible business practice and can encourage senior management to do the same.

Overall, 67% of chairmen are independent while 84% are non-executives. The gap is largely due to non-executive chairmen being a major shareholder or having an executive position in the company within the last three years and thus cannot be deemed as independent. There is a decreasing trend in the percentage of non-executive and independent chairman as you move down the list of top 500 ASX listed companies. This trend results from smaller organisations generally having fewer directors on their board and fewer companies with a majority of independents. There is also an increase in the occurrence of the roles of chairman and CEO being served by the same individual at the smaller-cap listed companies.

Chairperson	% Non-executive	% Independent	# Companies where the Chairperson is also the CEO
Top 100	87%	74%	3
101-200	84%	71%	5
201-300	84%	64%	8
301-400	83%	60%	6
401-500	82%	63%	12
Total	84%	67%	34

The average age of the Chairman and CEO is 63 and 54 years respectively, which remains broadly consistent across the Top 500 ASX listed companies. This supports the assumption that the Chairman generally holds an executive or CEO role within an organisation prior to holding the position of Chairman. The UK Financial Times discusses a new breed of chairmen and CEOs who are starting to put a greater focus on responsible business activities that comprise a company's values over profitable opportunities; this is likely to increase as senior management move into the role of CEO and then Chairman, bringing with them their experience with responsible business practice and corporate social responsibility as these gain increasing importance in the business community.

Gender diversity

Despite the recent focus on workplace diversity, particularly gender diversity, there is still a severe under representation of women holding executive positions and directorships. The results show that of the 3,065 directorships within the top 500 ASX listed companies, only 338 were held by women, representing 11%. It is also noted that 47% of companies have all male boards, with only 13% having women in 25% or more roles.

The table below shows a summary of female directors. As expected there are a higher proportion of women serving on the boards of the larger companies, particularly the Top 100. However, the overall representation is still minimal, averaging to only 10%, most of whom are non-executive directors. Further analysis identified that there are only 16 female CEO's and 13 female Chairs in the 500 ASX listed companies, making up 4% and 3% of these roles respectively.

ASX Listing	Average Total No. of Directors	Average No. of female Directors	% of female Directors	Average No. of Non-executive Directors	% of Non-execs	Average No of female Non-execs	% of female Non-execs
Top 100	8.5	1.4	16.6%	6.9	80.5%	1.4	19.2%
101 - 200	6.9	0.8	11.0%	5.4	76.4%	0.8	13.2%
201 - 300	6.1	0.5	8.1%	4.7	76.6%	0.5	9.6%
Top 300	7.2	0.9	11.9%	5.7	77.8%	0.9	14.0%
301 - 400	5.9	0.4	7.3%	4.2	71.8%	0.4	8.8%
401 - 500	5.7	0.4	7.5%	4.0	70.4%	0.3	9.5%
All 500	6.6	0.7	10.1%	5.0	75.1%	0.7	12.1%

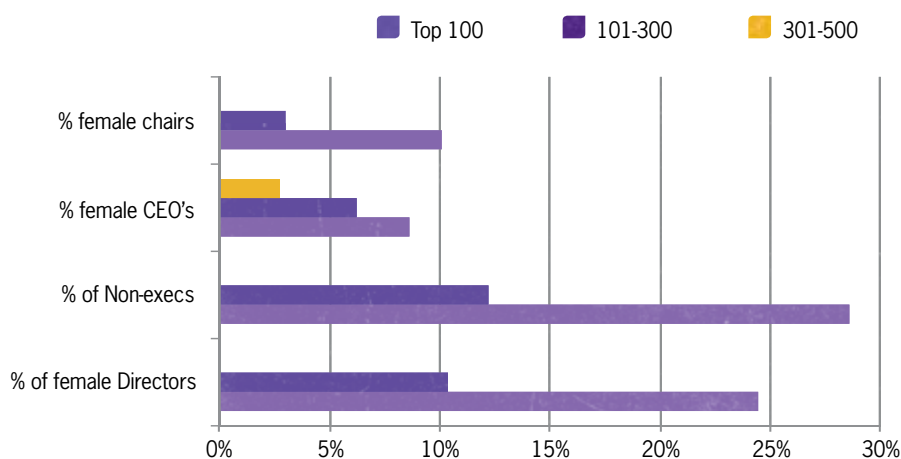
Overall, the average percentage of female employees across all levels of an organisation is 39%. When examining this representation based on industry sector, it shows that this percentage is lowest in the materials and energy and utilities sectors (27% and 28% respectively) and highest in the education and retail industries (58% and 53% respectively).

Despite having the smallest percentage of female directors, the materials sector has the largest number of female directors at 99 which is more of a reflection of its sheer size in comparison to the other industries represented on the ASX. Of the 16 female CEO's, six are within the Materials sector, which also includes four of the 13 Chairwomen. This demonstrates that although the numbers are still low, efforts are being made to include more women at the higher levels within these organisations.

The next highest number of female directors, CEO's and Chairs is in the financials industry which also has an above average percentage of total female employees.

Our results showed that in the education and retail industries, despite having a high percentage of female employees, did not have many female directors. This indicates that a larger proportion of female employees work at lower levels within the organisation.

% Women in Director positions

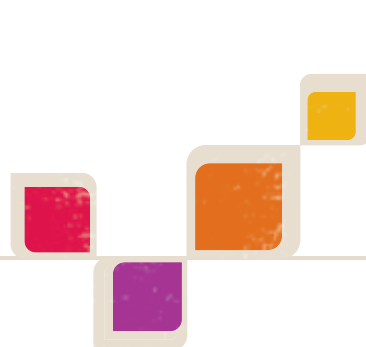


The remuneration resolution and “two Strikes”

The remuneration resolution “two strikes” policy was introduced in 2011. It stipulates that a company will receive a strike if 25% or more shareholders vote against the remuneration resolution at the AGM. If a company receives two consecutive strikes, the shareholders can then vote to spill the board. If the spill resolution is passed (50% of the votes are required to pass) an EGM must be held to re-elect the board within 90 days.

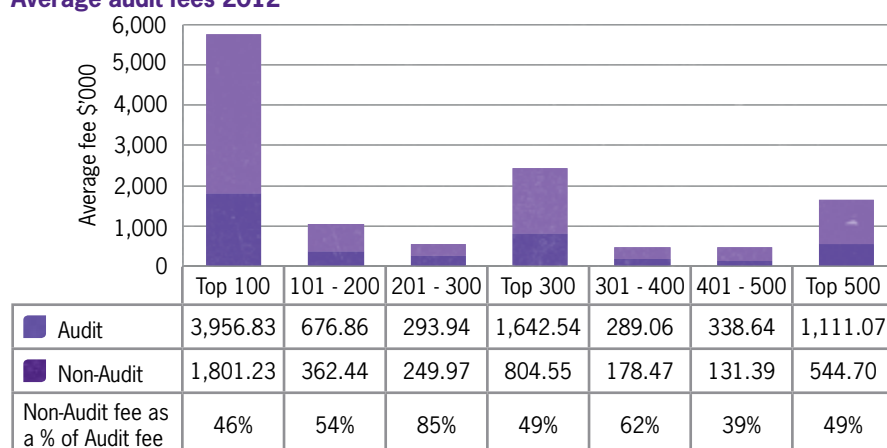
Our review showed that, of those who held an AGM, 24 companies did not pass their remuneration resolutions in 2012 (17 companies did not hold an AGM; they were either newly listed or investment management funds). However, there was 99.5% compliance with the “two strike” policy as most of the entities that did not pass the resolution, had passed it in 2011. Likewise, companies who were not able to pass the resolution in 2011 had made changes which were approved by shareholders in 2012. Cabcharge and Linc Energy were the only two companies in the Top 500 ASX listed companies who received their second strike. Despite this, most shareholders voted against a spill of the board with just 14% and 26% respectively voting in favour. No Top 100 ASX listed company received a second strike.

	Resolution not approved at 2012 AGM	% Not approved based on companies who voted	# Entities who received 2 strikes	% Not compliant with 2 strike policy
Top 100	3	3.3%	0	0.0%
101-200	4	4.4%	1	1.1%
201-300	6	6.7%	1	1.1%
Top 300	13	14.4%	2	2.2%
301-400	5	5.6%	0	0.0%
401-500	6	6.7%	0	0.0%
All 500	24	26.7%	2	2.2%



Audit fee analysis

Average audit fees 2012

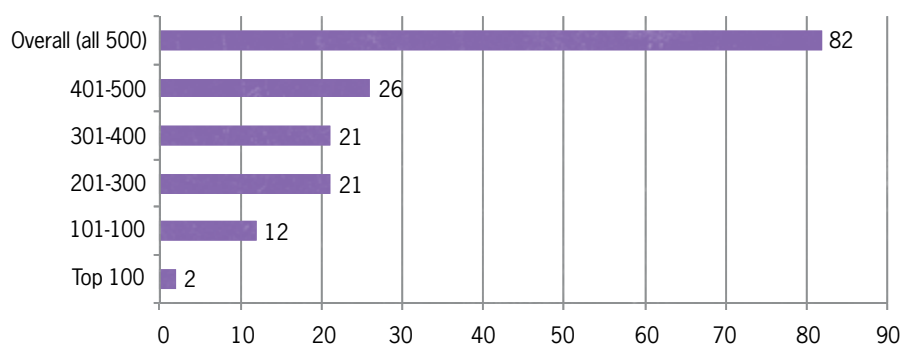


A correlation can be observed between audit fees and market capitalisation. Accordingly, the average audit fee for the Top 100 companies was over \$3.9 million in 2012 (2011: \$3.3 million). The average audit fee for ASX 101-200 of \$0.7 million (2011: \$0.6 million) was more than double that for ASX 201-300 which was \$0.3 million (2011: \$0.3 million). Relatively similar audit fees were charged on average across ASX 201-500. Average audit fees for the ASX500 increased to \$1.111 million (2011: \$952,000) or 16%.

Companies in the ASX 201-300 paid the highest non-audit fees as a percentage of audit fees in 2012, a result which is consistent with the prior year. This was mainly due to additional services provided for taxation compliance and due diligence services. However, observation of higher compliance with the ASX Corporate Governance Principles and Recommendations relative to other companies in the ASX 500 was not evident.

The average non-audit fee across the ASX 500 was \$545,000, an increase from the 2011 average of \$358,000. There is also a continuing trend in the rise of the proportion of non-audit to audit fees which was up to 49% (across the ASX 500) in comparison to only 38% in 2011.

Nil non-audit fees



Out of the ASX 500, 82 companies were found to not have used their audit firms for non-audit services in 2012, compared to 93 in 2011.

Change in Auditor

Only 20 (4%) of the Top 500 ASX listed companies changed their auditor in 2012 and of these just seven (2%) were in the Top 300. Looking at the impact of a change in auditor on audit fees, we found that 35% of companies had a decrease to their audit related fees while 45% decreased their non-audit fees. Overall, 55% of companies moved to audit firms with lower total fees.

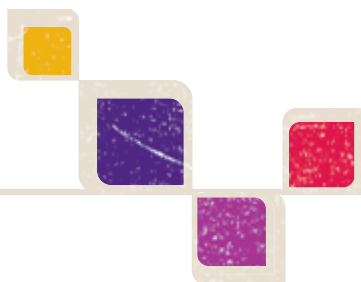
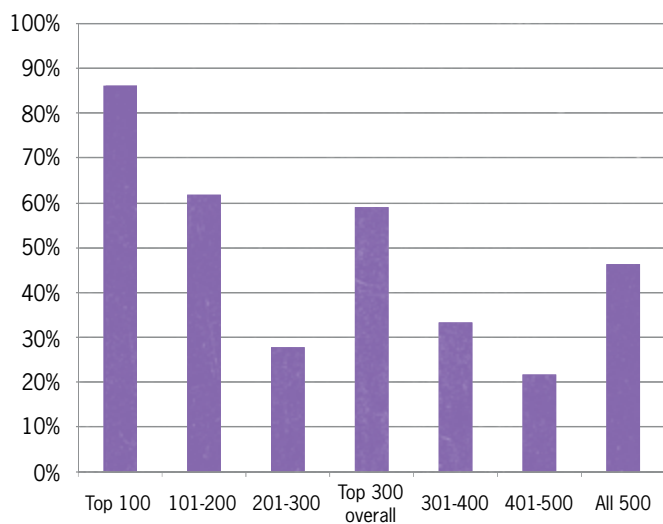
In the UK and Europe, legislative proposals are being introduced to increase competition in the audit market. There are suggestions to restrict the non-audit services a company's auditor can offer and all FTSE 350 companies will be required to retender their audit every five years. This will help to provide more transparency for shareholders regarding auditor appointment and ensure that auditor independence is maintained.

It is possible that Australia could move in a similar direction which may provide added benefits of supporting improved governance and increasing audit competition.

Internal Audit

In total 46% of the companies reviewed disclosed that they had an internal audit function. As expected, this was most apparent in the Top 100, 88% of which disclosed they had this function. This decreased to just 22% in the Top 401-500 companies which, again, was not unexpected.

% compliance with internal audit function



Integrated reporting

An integrated report is a concise communication about how an organisation's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term. Integrated reporting in Australia is not mandatory and the style of reporting is still evolving. Accordingly, we reviewed the existence of reporting against five key areas which would typically form part of an integrated report: occupational health and safety (OH&S), human resources (HR), the community, the environment and carbon emissions.

OH&S

The majority of companies that report on their OH&S performance are in the Materials (54%), and Energy and Utilities (50%) sectors, whose operations depend on manual work. Statistics on lost time due to injury demonstrate their commitment to a long term goal of "zero harm" and numbers have significantly decreased in comparison to prior years. A large number of reporting companies also disclose OH&S programs as part of their effort to prevent further injuries in the future. Companies in the service-orientated industries provided very little information regarding this area as health and safety is generally not a high risk area.

HR

Overall, the percentage of companies reporting on HR performance was low, averaging just 21%. The main areas of discussion were the percentage of women employees in the workforce and the establishment of diversity committees, indicating that companies value diversity in line with the revised Recommendation 3. However, little information was given outside compliance with this Recommendation. The HR report commonly included any training and development programs, equal employment opportunity policies and flexible work arrangements.

HR should be a focus area for businesses wanting to better align business practice with the culture and values of an organisation as they are in a good position to influence cultural change and monitor progress over a long period of time.

Community

Companies are increasingly recognising the importance of Corporate Social Responsibility (CSR). We have seen this borne out in their reports with an average of 41% of companies on average reporting on their involvement in the community. The Consumer industry has the highest level of integrated reporting in this area at 71%. The more common examples of community initiatives this year include donations, appeals, fundraising and a range of charity work.

Environment

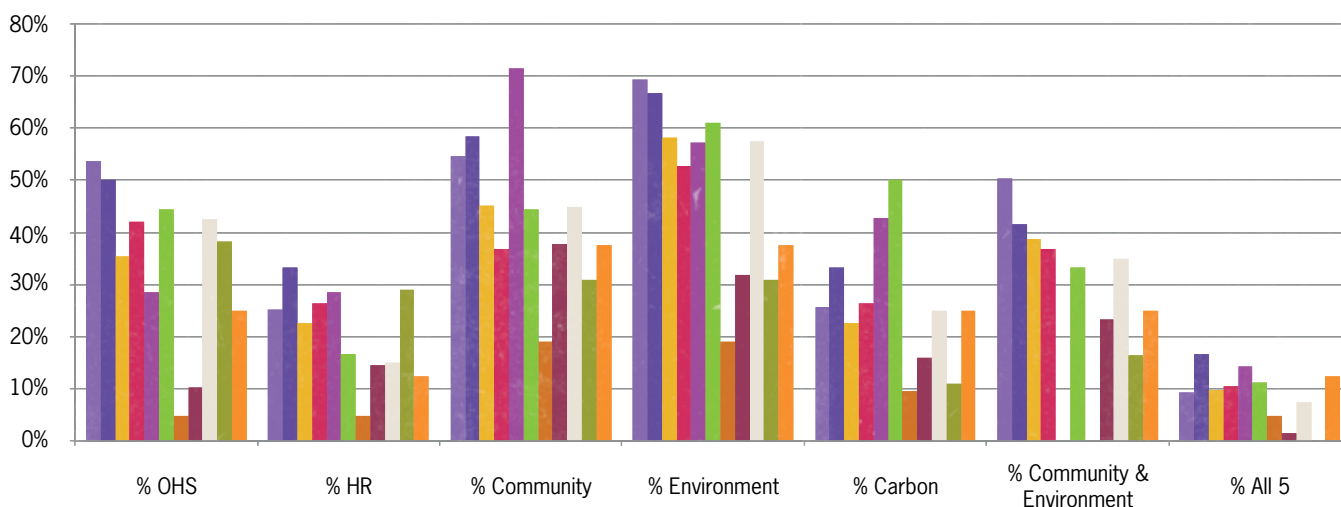
As expected, the Materials and Energy and Utilities sectors have showed the highest level of compliance with environmental reporting, 69% and 67% respectively. This is likely due to the higher level of environmental legislation these industries must comply with in both state and federal jurisdictions. Non-compliance with these rules and regulations would often mean the immediate loss of the company's licence to operate on their sites and severe financial penalties.

Conversely, companies in the services sector rarely reported on the environment and their carbon footprint. Where voluntary disclosure on the environment was made, the report would usually draw attention to recycling programs, environmental awards won, new infrastructure and the associated benefits such as lower energy consumption and reduced carbon emissions. Where companies state in their annual reports that their operations are not materially affected by environmental regulations, such disclosure is deemed compliant to environmental reporting.

Carbon

While it is mandatory for certain companies to report their greenhouse gas emission levels to regulatory bodies such as the National Pollutant Inventory, carbon reporting remains minimal, averaging just 26%. Overall it is generalised, lacks detail and often omits quantitative statistics. However, the quality of carbon reporting is expected to improve as global warming attracts the attention of the Federal Government and regulatory bodies. The Transportation sector had the highest percentage of reporting on carbon emissions at 50% which is in line with the nature of the transportation industry.

Integrated reporting by industry



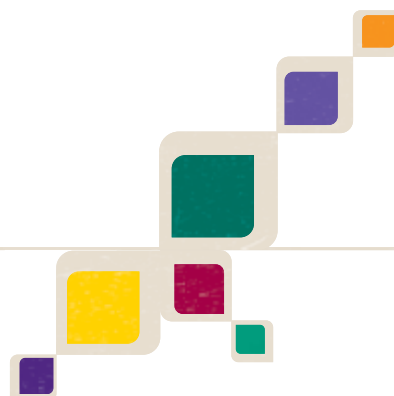
Community and Environment were the areas where companies showed the highest levels of integrated reporting in their efforts to demonstrate how they are being good corporate citizens. On average, 46% of companies provided some reporting on either the community or the environment with 27% reporting on both. This is likely due to the increasing importance placed on CSR as shareholders want to see what steps companies are taking to ensure they are acting in the best interests of the public and minimising their impacts where possible.

As a whole, these five areas were not well reported on by the ASX 500 in 2012 with very few companies reporting in all five areas (9%). Those that did provide information on their actions in these areas often gave only summaries without much detail. Perhaps this suggests that more incentives are required to compel companies to embrace CSR and produce a more detailed report for the next reporting period. Directors and executives interviewed by the UK Financial Times suggested that companies set up CSR committees that report to the board, have management set measurable performance targets which are monitored by the CEO and include the results of reporting on social issues into the employee rewards system. Integrated Reporting could be a solution if brought into the ASX Corporate Governance arena.

Guidance from the Australian Institute of Company Directors (AICD)

The AICD website contains information to assist directors prepare for corporate governance set out in a guide to be used in conjunction with their Company Directors Corporate Governance Framework which was established in 2010/2011 summarising the characteristics of a good director (to view the full version you must be a member of the AICD). Topics included in the guide are:

Topic	Work of AICD
Board diversity	Highlights the advantages of diversity on Board composition. Recommends actions to achieve a greater representation of women on boards and in senior executive positions. Publishes sample diversity policies and provides practical tips to help companies get started on developing diversity policies and measurable objectives to comply with Principle 3 and its Recommendations.
Board evaluation	Publishes a guide to help companies design performance appraisal of the board and individual directors to comply with Principle 2 and its Recommendations.
Relationship between the board and management	Encourages companies to establish clearly defined roles, delegations and boundaries between the board and management in accordance with Principle 1.
Nomination committees	Outlines the necessary key personal qualities, skills, knowledge and experience of directors to complement the commentary under Recommendation 2.4 in the appointment of new directors.



Detailed findings

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.

In 2012, almost 100% of the ASX Top 500 has established and disclosed the respective roles and responsibilities of Board and management, thereby embracing Recommendation 1.1.

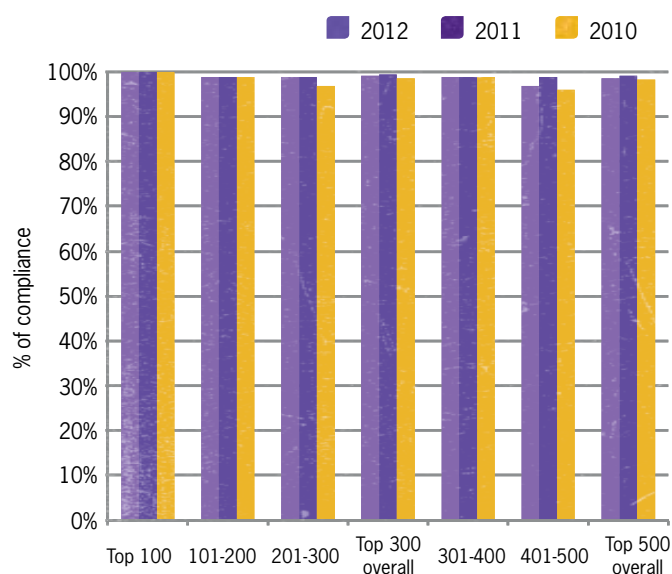
Since there has historically been such a high level of compliance with Principle 1, it is meaningful to investigate the small pool of non-compliant companies.

Recommendation 1.1 considers the disclosure of function reserved for the board and those delegated. A non-compliant mining company within the ASX 200 explained that they have an informal framework in place and as the company progresses towards production activities, the role of the board will become more evident and formalisation of their functions will be possible.

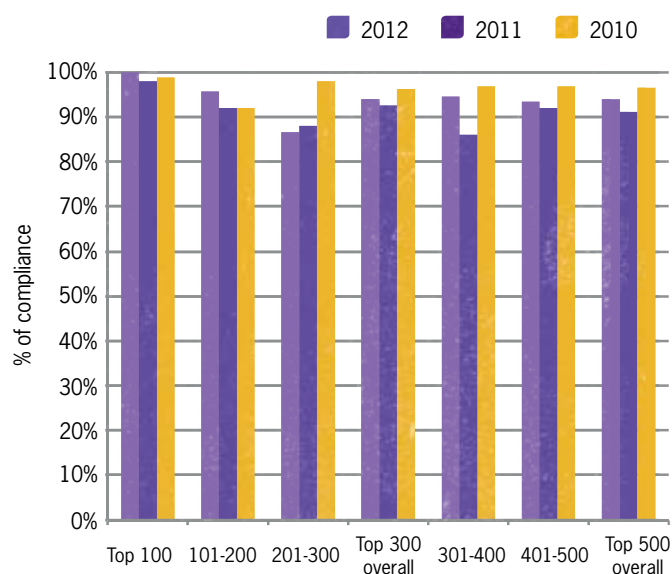
Recommendation 1.2: Companies should disclose the process for evaluating the performance of senior executives.

During the review process, it became clear that a number of companies have chosen to disclose the performance evaluation process of senior executives (Recommendation 1.2) in a separate Remuneration Report rather than embed such information in the Corporate Governance Statement Report. However, a number of companies still fail to adequately disclose the performance evaluation process of senior executives and include no mention of induction procedures for new senior executives. Compared to previous years, the level of compliance with Recommendation 1.2 has increased across the ASX Top 100. Apart from the 201-300 companies which remained roughly the same, compliance with this recommendation has increased on 2011 results to 94%.

Compliance with recommendation 1.1



Compliance with recommendation 1.2

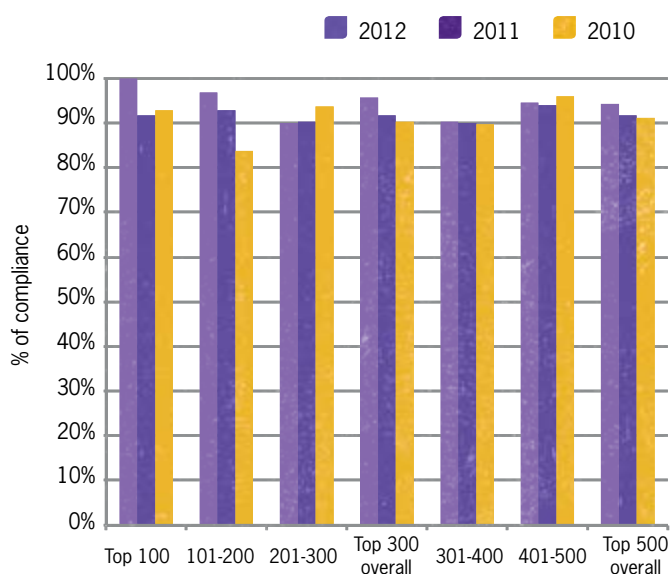


Recommendation 1.3: Companies should provide the information indicated in the Guide to reporting on Principle 1.

The departure from compliance with Recommendation 1.3 relates mostly to non-disclosure of whether companies have conducted performance evaluations of senior executives in the reporting period and whether these evaluations were executed in accordance with the process disclosed.

Overall compliance with Principle 1 is **96%** (2011: 94%)

Compliance with recommendation 1.3



Principle 2: Structure the Board to add value

Recommendation 2.1: A majority of the Board should be independent Directors.

To comply with Recommendation 2.1, a majority of the Board should be independent directors where the independence of each director is assessed regularly against both quantitative and qualitative elements. The departure from compliance with such Board composition is mainly attributable to the small size of the Board and of the business. The incidence of departure from Recommendation 2.1 was more prevalent in the lower end of the ASX 500.

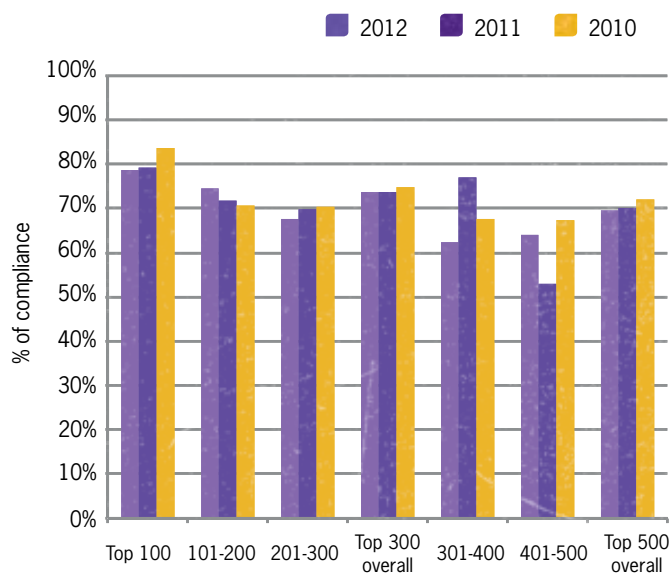
Recommendation 2.2: The chair should be an independent Director.

Recommendation 2.2 concerns the independence of the Chairperson. A survey of non-compliant companies shows that in the appointment of a Chairperson, their experience, skills and abilities are more highly regarded than their independence, explaining the average compliance level of 70%.

Compliance with recommendation 2.1



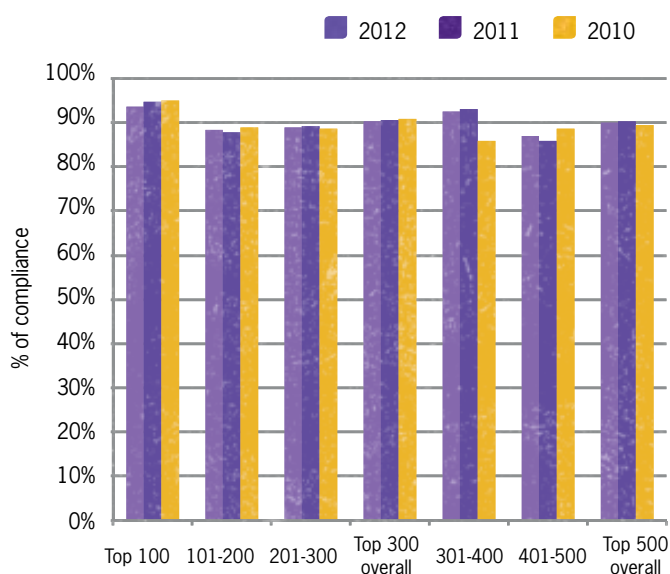
Compliance with recommendation 2.2



Recommendation 2.3: The roles of chair and chief executive officer should not be exercised by the same individual.

For Recommendation 2.3, compliance across the Top ASX 500 has remained consistent at 90% (2011: 90%). This indicates that there are still companies where the roles of Chair and CEO are shared by the same individual.

Compliance with recommendation 2.3



Recommendation 2.4: The Board should establish a nomination committee.

Following on from last year, 2012 has again seen an increase in overall compliance with Recommendation 2.4 (to 81% (2011: 74%)). Where there is no nomination committee established, the general explanation is that such functions are fulfilled by the full Board rather than a sub-committee. Non-compliance with this recommendation reaffirms the impracticality of this Recommendation in a similar way to Recommendation 2.1. It is often unfeasible for a small committee to consist of a majority of independent Directors, be chaired by an independent Director, and have at least three members for those companies with small Boards.

Compliance with recommendation 2.4



Recommendation 2.5: Companies should disclose the process for evaluating the performance of the Board, its committees and individual Directors.

The results this year show an overall improvement on last year's compliance with this recommendation. However, as with last year, we expected more companies to disclose their Board performance evaluation process. A closer examination reveals the failure of many companies to clearly disclose their measures of performance or the actual procedure in place. Where a company merely mentions that a performance evaluation process is in place, yet fails to provide details of the process, it is deemed non-compliant with Recommendation 2.5. It also appears that there is a decreasing trend in compliance with this principle, with some of the smaller companies having only informal processes in place for performance evaluation.

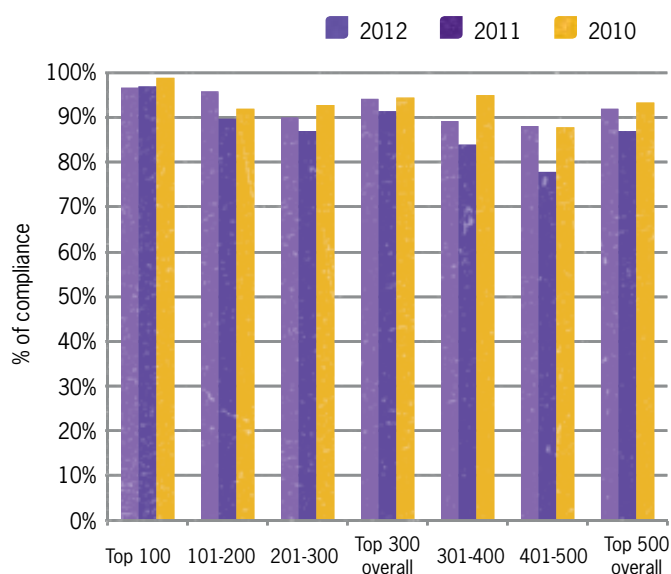
Recommendation 2.6: Companies should provide the information indicated in the Guide to reporting on Principle 2.

Recommendation 2.6 comprises of a list of material that should be included in the Corporate Governance Statement relating to Principle 2 in the annual report. Companies generally fail to comply because they neglect the disclosure of "a procedure to take independent professional advice at the expense of the company" and "whether a performance evaluation has taken place in the reporting period and whether it was in accordance with the process disclosed".

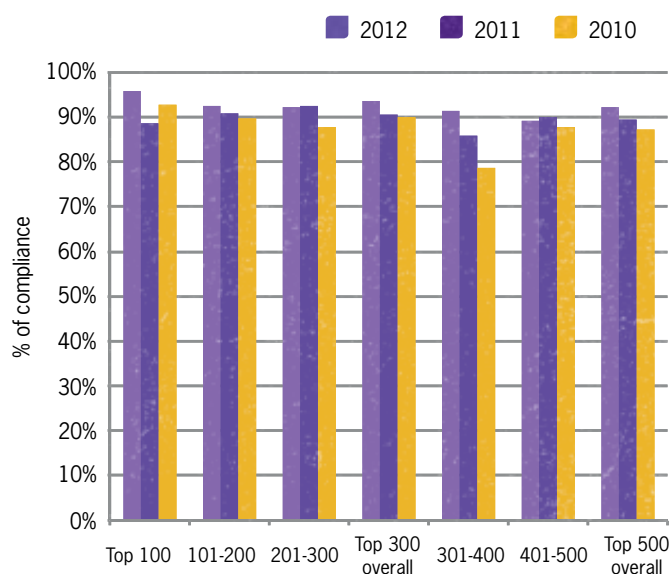
In comparison to the prior year, ASX 101-500 have improved their compliance to provide explanations for their departure from Principle 2.

Overall compliance with Principle 2 is **83%** (2011: 81%)

Compliance with recommendation 2.5



Compliance with recommendation 2.6



Principle 3: Promote ethical and responsible decision making

Recommendation 3.1: Companies should establish a code of conduct and disclose the code or a summary of the code as to:

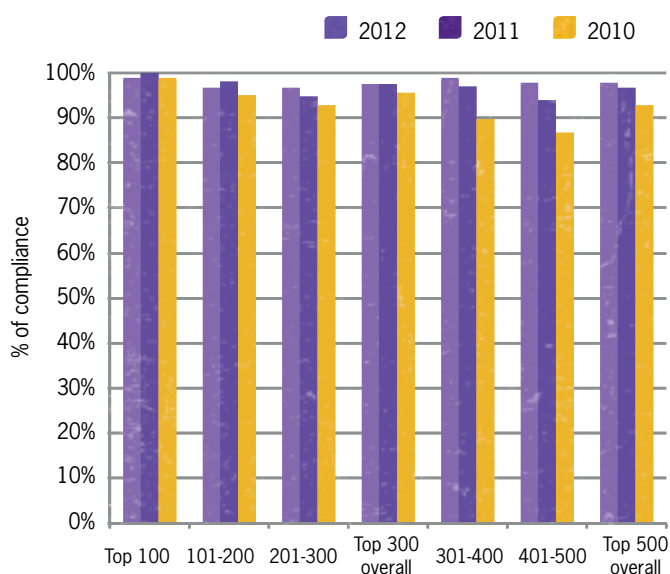
- the practices necessary to maintain confidence in the company's integrity
- the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders, and
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

Compliance in the ASX Top 100 with Recommendation 3.1 has slightly decreased to 99%, this being due to one of the companies currently reviewing their Code of Conduct. There has also been a slight overall improvement by the rest of ASX Top 500 to implement and disclose a code of conduct to promote ethical and responsible decision-making, up 1% on last year.

Recommendations 3.2, 3.3 and 3.4 were revised in 2011 with companies encouraged to demonstrate early compliance. Due to these recommendations being newly implemented, comparisons can only be made between 2011 and 2012. Compliance was not required prior to 2011.

Recommendations 3.2, 3.3 and 3.4 were revised in 2011 with companies encouraged to demonstrate early compliance. Due to these recommendations being newly implemented, comparisons can only be made between 2011 and 2012. Compliance was not required prior to 2011.

Compliance with recommendation 3.1



Recommendation 3.2: Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity for the Board to assess annually both the objectives and progress in achieving them.

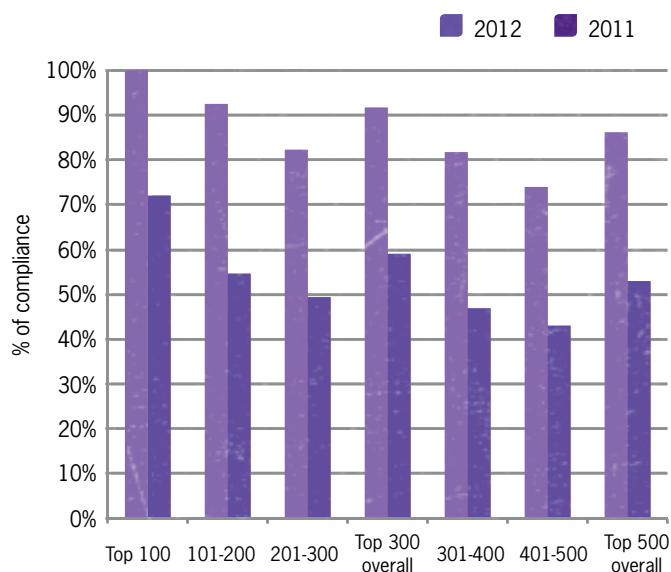
As expected, the highest level of compliance for Recommendation 3.2 (new in 2011) is amongst the ASX Top 100 companies at 100%. This may be because larger companies are better able to dedicate resources to develop a diversity policy than smaller companies. Some of these larger companies already had a diversity policy in place before the revised Recommendations come into effect.

In the year before the change came into effect, non-compliance was the norm (compliance with this Recommendation was only 5% in 2010). Significant work has been done over the last two years to develop diversity policies across the ASX Top 500, which has seen the level of compliance rise to 86% and above, which is a significant improvement on last year's results of between 35% and 55%.

The majority of non-compliant companies continue to state that they are in the process of drafting a diversity policy and will disclose their policies and objectives at the end of the next reporting period.

Given the voluntary nature of the Principle however, a small number of companies continue to state that they have an informal practice but do not intend to adopt a formalised process.

Compliance with recommendation 3.2



Recommendation 3.3: Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.

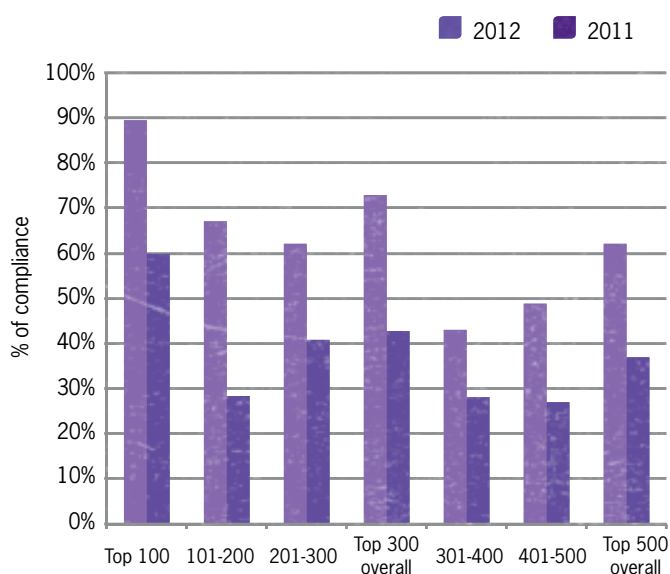
Recommendation 3.3 follows on from Recommendation 3.2's requirements to establish a diversity policy and requires companies to disclose their progress towards achieving specified objectives. Compliance with this recommendation has again significantly increased to 62% compared to only 37% in 2011. From our review of the ASX 500, these objectives tend to involve the number and percentage of women employed at various levels. Where companies were deemed non-compliant with the Revised Recommendation 3.3 this was often due to a lack of measurable objectives being disclosed with many companies making reference to broad, sweeping statements rather than 'measurable objectives'. Many companies also noted that they were in the process of developing measurable objectives.

Recommendation 3.4: Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.

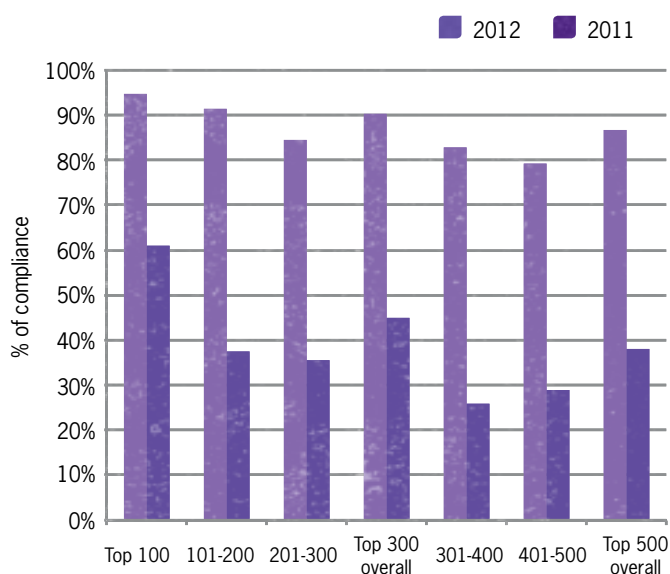
Recommendation 3.4 concerns the disclosure of the proportion of women employees, senior executives and board members. 87% of companies are now providing a breakdown of the proportion of women in all levels of the organisation (2011: 38%), not just an overall figure. There are still companies who only disclosed the proportion of female employees in the whole organisation but not those in management roles or on the Board. We believe this is likely to be due to the fact that there are few women in these roles if they are present at all.

As predicted last year, there have been significantly higher levels of compliance with Recommendations 3.3 and 3.4 as more companies are developing better diversity policies and setting measurable objectives regarding women in the workplace. However, we note that there is still significant room for improvement.

Compliance with recommendation 3.3



Compliance with recommendation 3.4



Recommendation 3.5: Companies should provide the information indicated in the Guide to reporting on Principle 3.

Recommendation 3.5 concerns the disclosure of compliance with the recommendations of Principle 3. No meaningful comparisons can be drawn between 2010 and 2011 given the different reporting requirements for entities surveyed. This year, however, showed a large improvement as companies are taking on board the new recommendations. In most cases of non-compliance we found that companies were still in the process of implementing the new recommendations so we should expect to see a further increase in compliance with Principle 3 next year.

Compliance with recommendation 3.5



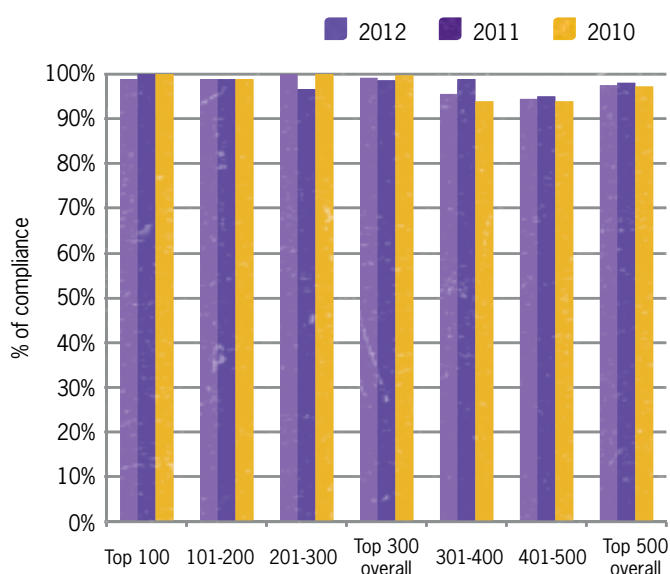
Principle 4: Safeguard integrity in financial reporting

Recommendation 4.1: The Board should establish an audit committee.

Overall compliance with this Recommendation remained consistent at 98%. Companies that have not established an audit committee continue to justify their departure as constrained by their small size or argue that the low complexity of audit-related affairs can be dealt with by the full Board.

Listing rule 12.7 requires all entities that are included within the S&P All Ordinaries Index at the beginning of the financial year to establish an audit committee. The recommendations in relation to composition, operation and responsibility of the committee are required to be complied with by the S&P/ASX 300 Index.

Compliance with recommendation 4.1

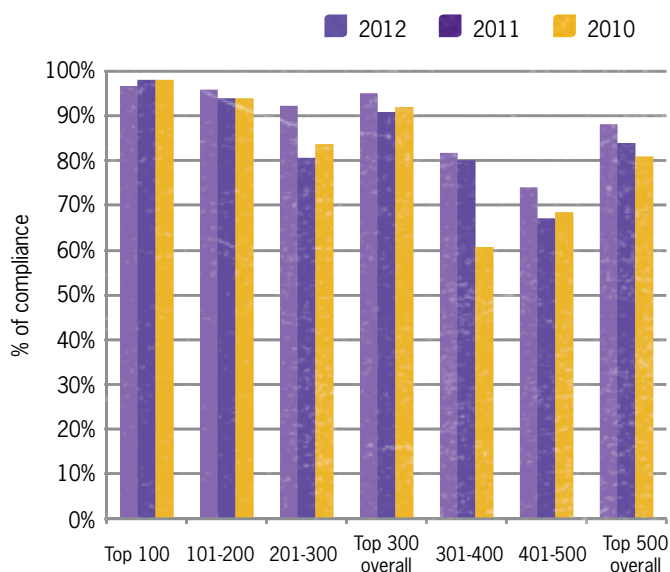


Recommendation 4.2: The audit committee should be structured so that it:

- consists only of non-executive Directors
- consists of a majority of independent Directors
- is chaired by an independent chair, who is not chair of the Board, and
- has at least three members

Departure from the audit committee structure as per Recommendation 4.2 is once again attributable to the small size of the Board. We note however that overall compliance has increased by 4% to 88%. The most common departure scenarios are having only two members on the audit committee and the chairman of the committee is also the chairman of the Board.

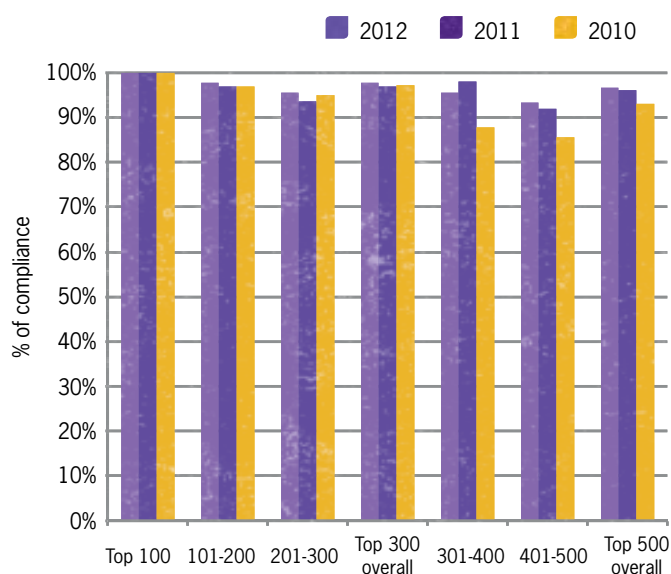
Compliance with recommendation 4.2



Recommendation 4.3: The audit committee should have a formal charter.

Compliance with Recommendation 4.3 in the ASX Top 100 companies has remained at 100% and consistently high compliance was also seen across the rest of the ASX Top 500 in 2012 as was the case in 2011.

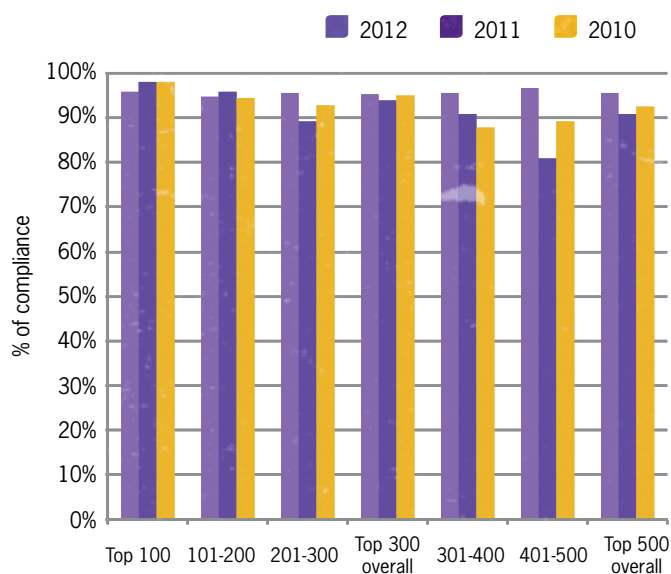
Compliance with recommendation 4.3



Recommendation 4.4: Companies should provide the information indicated in the Guide to reporting on Principle 4.

This year showed a noticeable improvement in compliance with Recommendation 4.4. In particular, companies are providing more information on their audit committees, particularly the qualifications of each audit committee member.

Compliance with recommendation 4.4

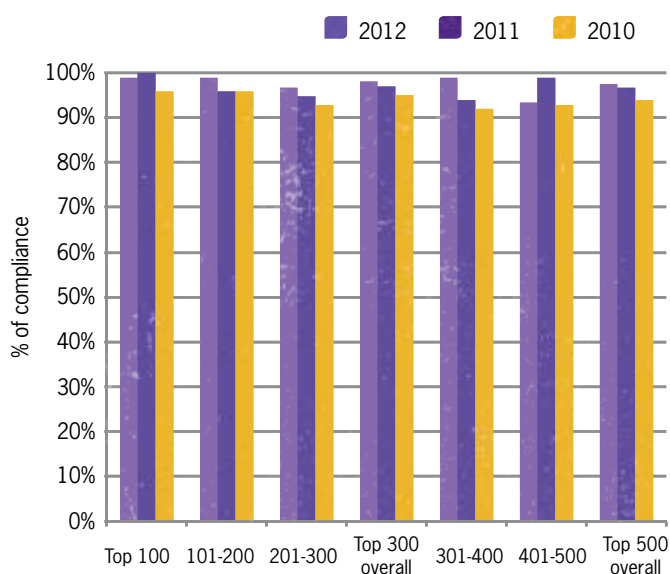


Overall compliance with Principle 4 is **94%** (2011: 92%)

Principle 5: Make timely and balanced disclosure

Recommendation 5.1: Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

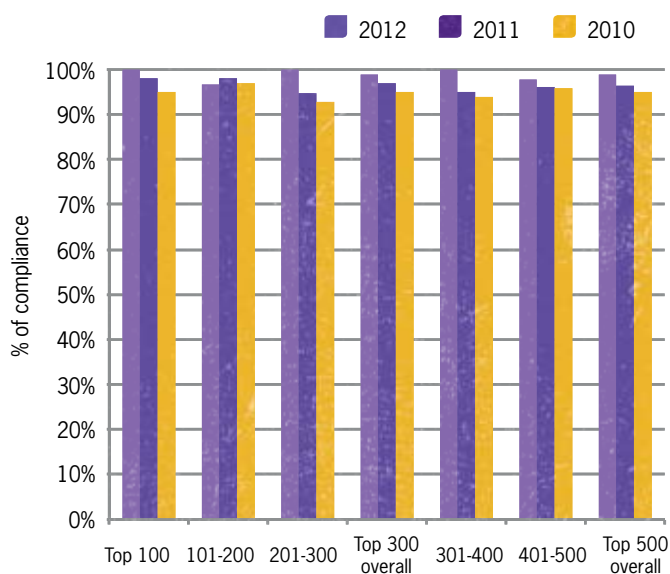
Compliance with recommendation 5.1



Recommendation 5.2: Companies should provide the information indicated in the Guide to reporting on Principle 5.

Compliance with Recommendations 5.1 and 5.2 has increased across all of ASX Top 500 companies in 2012. In most cases, companies disclose their policies to ensure compliance with continuous disclosure and ASX Listing Rules both in the Corporate Governance Statement Reports (summary) as well as on their company websites (detailed).

Compliance with recommendation 5.2



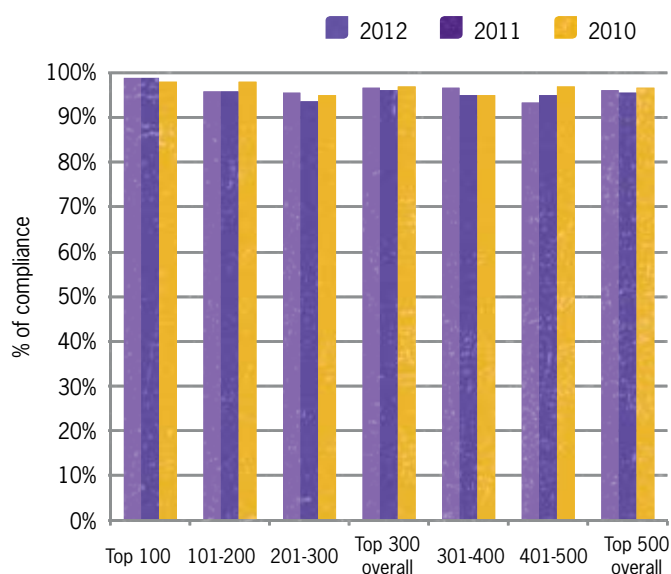
Overall compliance with Principle 5 is **98%** (2011: 97%)

Principle 6: Respect the rights of shareholders

Recommendation 6.1: Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.

Overall compliance with Recommendation 6.1 among the ASX Top 500 exceeds 95% and is consistent with last year. Companies are consistently proactive in facilitating transparent and timely shareholder communications, emphasising shareholder participation at general meetings and frequent reference to company websites.

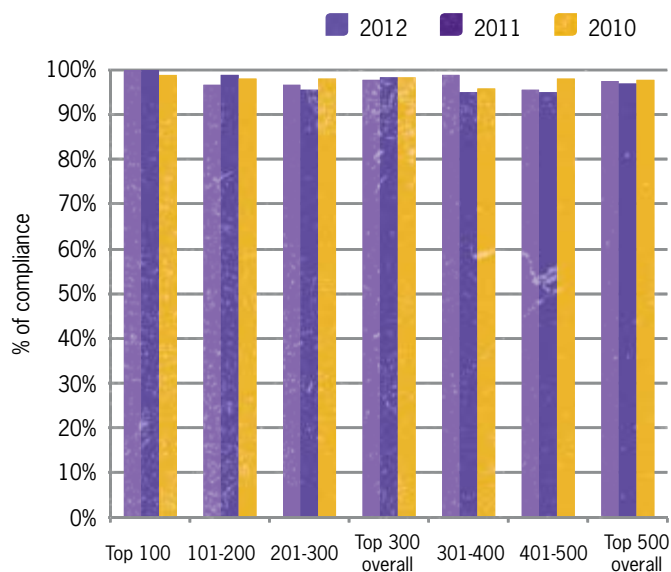
Compliance with recommendation 6.1



Recommendation 6.2: Companies should provide the information indicated in the Guide to reporting on Principle 6.

Much of the corporate governance information and other policies disclosed in the annual reports can also be found on company websites in a clearly marked corporate governance section.

Compliance with recommendation 6.2



Overall compliance with Principle 6 is **97%** (2011: 96%)

Principle 7: Recognise and manage risk

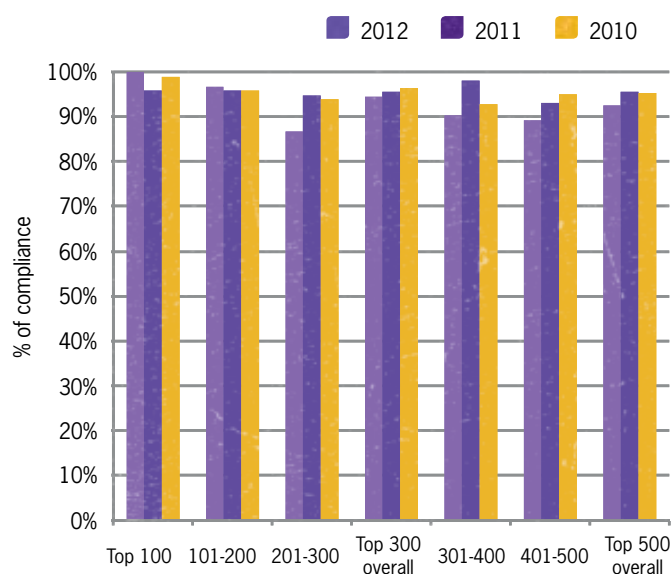
Recommendation 7.1: Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

A high level of compliance with Recommendation 7.1 regarding the disclosure of risk management policies was noted amongst the Top 100 (100%) and 101-200 (97%) which have both increased over 2011. We did note, however, that compliance reduced in the Top 201-300 and 301-400. During the review we found that several companies did not have formal risk management policies documented.

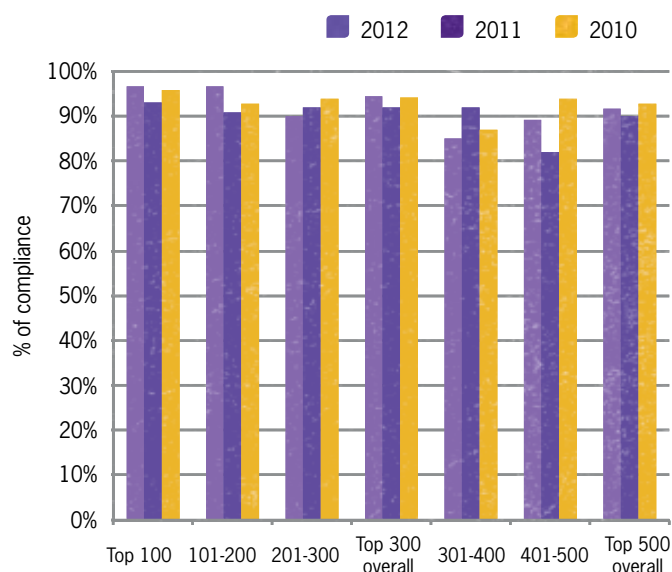
Recommendation 7.2: The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.

Recommendation 7.2 requires management to design and implement a risk management and internal control system to manage material business risks. 92% of the ASX Top 500 either have established a risk management committee or have arrangements in place whereby these functions are dealt with by the audit committee or the full Board. However, despite the existence of a risk management committee, non-compliance is deemed when companies fail to disclose whether any review or reporting on the assessment of the effectiveness of the company's management of its material business risks had been made.

Compliance with recommendation 7.1



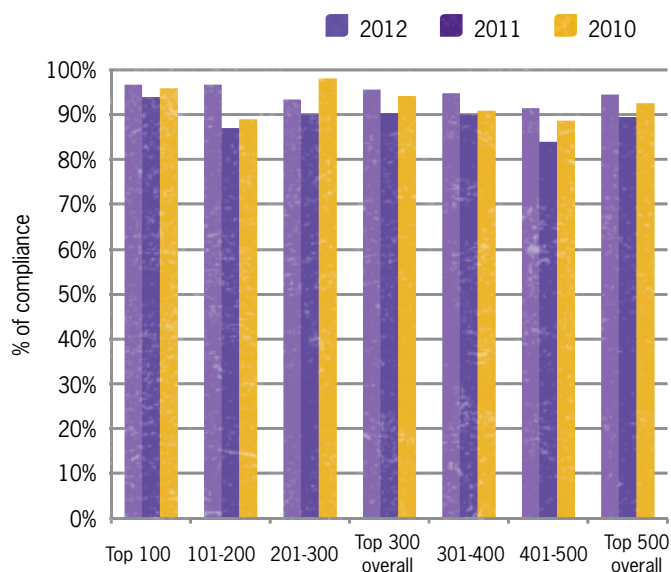
Compliance with recommendation 7.2



Recommendation 7.3: The Board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

There is an improvement in compliance with Recommendation 7.3 (95%) this year as companies make explicit disclosure in their annual reports whether the Board has received assurance from the CEO and CFO (or their equivalents).

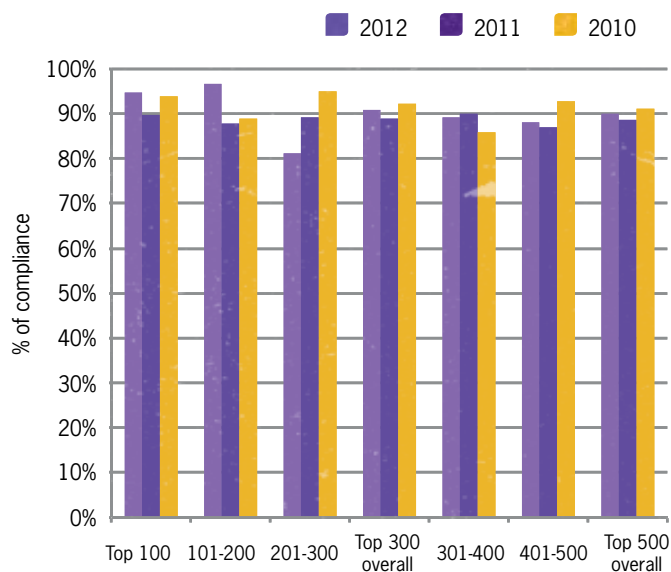
Compliance with recommendation 7.3



Recommendation 7.4: Companies should provide the information indicated in the Guide to reporting on Principle 7.

Where there was no specific disclosure that a CEO and CFO declaration had been obtained, explanations for the departure from Recommendation 7.3 were also lacking. Similar to last year, compliance with Recommendation 7.4 closely follows that for Recommendation 7.3.

Compliance with recommendation 7.4



Overall compliance with Principle 7 is **92%** (2011: 91%)

Principle 8: Remunerate fairly and responsibly

Given the high level of compliance with Principle 8, we again turn our attention to non-compliant companies.

Recommendation 8.1: The Board should establish a remuneration committee.

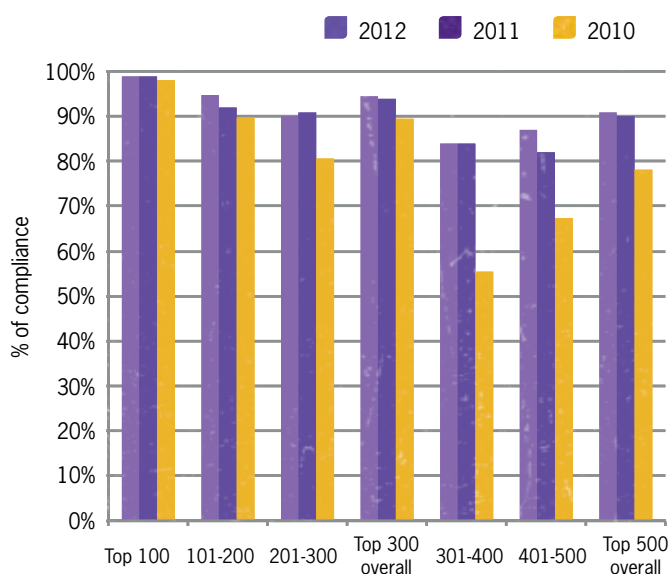
Recommendation 8.1 relates to the formation of a separate remuneration committee and our review has shown an increase in compliance on last year. The most common reason for non-compliance is again the small size of the Board. For trusts, there is either no senior executive remuneration or the remuneration responsibility is already being prescribed by the trust's constitution and any changes would require the approval of unit holders.

Recommendation 8.2: The remuneration committee should be structured so that it:

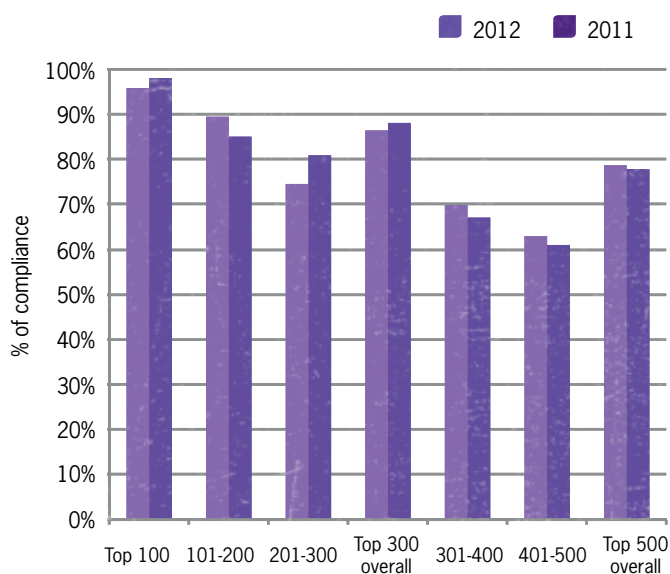
- consists of a majority of independent Directors
- is chaired by an independent chair, and
- has at least three members.

The revised Recommendation 8.2 (new in 2011 so no comparison can be made against 2010) states that remuneration committees should have at least three members and consist mainly of independent Directors. As with Recommendations 2.1, 2.4 and 4.2, departures are typically noted for smaller size Boards, however there has been a slight improvement this year.

Compliance with recommendation 8.1



Compliance with recommendation 8.2



Recommendation 8.3: Companies should clearly distinguish the structure of non-executive Directors' remuneration from that of executive Directors and senior executives.

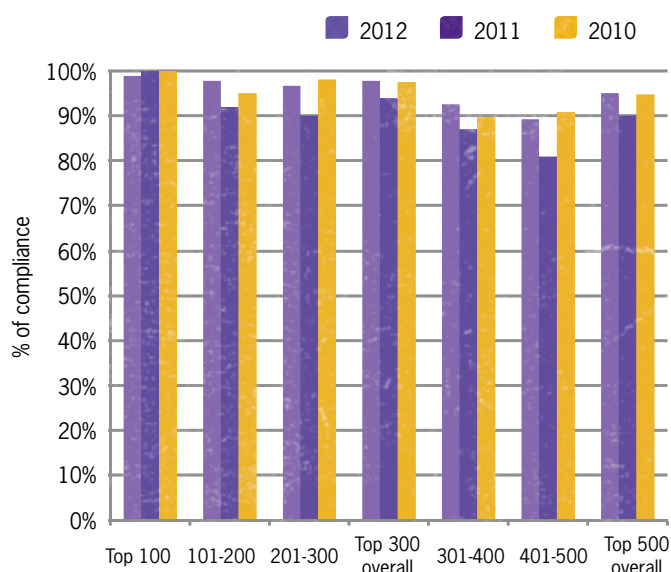
There is still high compliance in the ASX Top 100 at 99% in differentiating the remuneration structure of non-executive and executive Directors. The 1% decrease on last year is a result of one company in the Top 100 not directly employing any senior executives, and as such only discloses remuneration of non-executive Directors. Along with Recommendation 1.2, such information can be found in a separate Remuneration Report for most companies rather than in the Corporate Governance Statement Reports. Executive Directors generally involve both fixed and incentive pay.

Recommendation 8.4: Companies should provide the information indicated in the Guide to reporting on Principle 8.

This year there has been an improvement in compliance with the recommendations of Principle 8, where entities do not comply most have offered an explanation. Non-compliant companies were mostly smaller in size and stated that a remuneration committee was not necessary given their size and structure of their Boards and that the functions performed by the remuneration committee could be done by the whole Board.

Overall compliance with Principle 8 is **90%** (2011: 86%)

Compliance with recommendation 8.3



Compliance with recommendation 8.4



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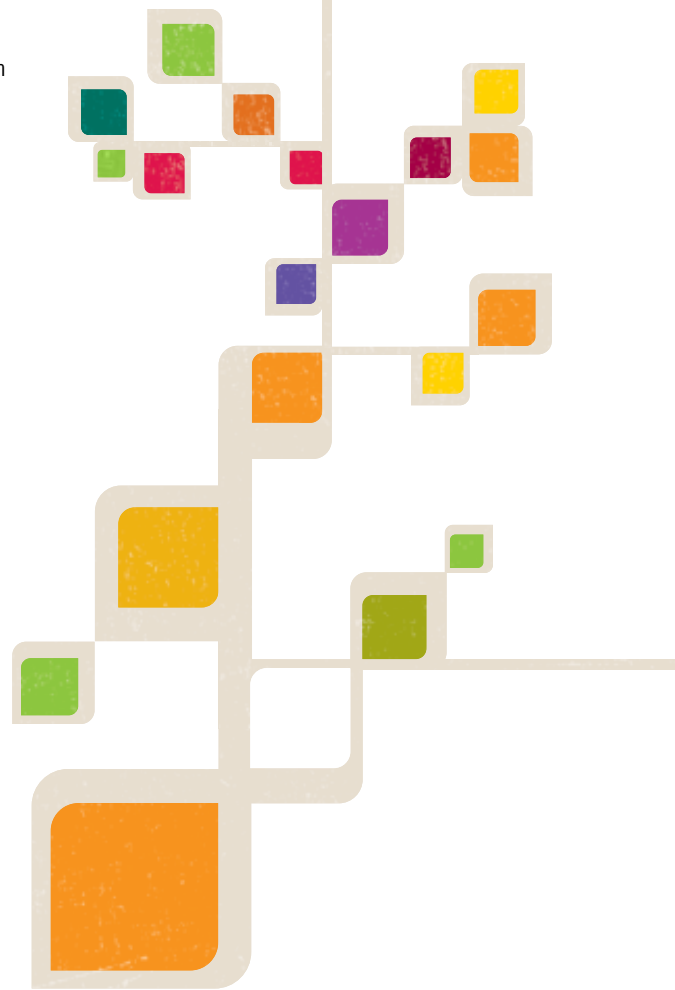
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