

# Corporate governance statement

## Corporate governance statement

IBA Health Group Limited ("IBA" or "Company") and the Board are committed to achieving and demonstrating the highest standards of corporate governance, consistent with the size and nature of the Company. This Statement outlines the Company's main corporate governance practices as at 30 June 2008. All these practices, unless otherwise stated, were in place for the entire year.

The Company considers that it has substantially met the best practice recommendations released by the Australian Stock Exchange Corporate Governance Council in March 2003 and as subsequently amended ("ASX Recommendations"). In circumstances where the Company has not followed an ASX Recommendation, the Company considers that the recommendation is not appropriate for a company of IBA's size and nature. This Statement also provides additional explanation as to why the Company has departed from particular ASX Recommendations.

## Board responsibilities and objectives

The objective of the Board is to increase shareholder value within an appropriate framework that ensures the Company's affairs are properly managed and controlled. The Board sets the strategic business direction to be followed and is responsible for the overall corporate governance of the Company. The Board has also established a framework of controls and a set of procedures and delegations of authority to the Chief Executive Officer and other senior executives.

The Board operates in accordance with the Company's Constitution. The powers reserved to the Board include the following:

- The review and oversight of the Company's strategic plan, setting goals and long-term objectives with a view to maximising shareholder value;
- Adopting the annual budget and reviewing financial performance;
- The selection, appointment and review of the performance of the Executive Chairman and Chief Executive Officer;
- Establishment of the control environment to facilitate the provision of meaningful reliable and timely information;
- Providing the basis for the review of the performance of the Board and its members and the senior management and their remuneration;

- Establishing a communication capability and procedures with all stakeholders in accordance with the continuous disclosure provisions and to comply with the relevant legal requirements;
- Reviewing and ratifying systems of risk management;
- Establishing a basis for approvals of capital expenditure, acquisitions and divestment;
- Setting the highest standards for ethical and corporate behaviour.

With the exception of the powers reserved for the Board, all other powers are delegated to management.

## Board composition

The policy is to maintain a broad base of business skills on the Board and expertise relevant to the Company's objectives. There are seven directors of the Company, five of whom are non-executive directors and three are considered "independent" in terms of the ASX Recommendations. There is one other director, who acts as an alternate to two of the non-executive AEP Financial Services Holdings Pty Ltd (AEPFSH)-nominated directors.

The term of office, skills, experience and expertise relevant to the position of director held by each director in office at the date of this report are set out on pages 22 to 24.

The Executive Chairman (Mr Cohen) and three other members of the Board (Messrs Garrington, Conway and Tscialas) are not considered independent directors.

Mr Cohen, or interests associated with him, is a "substantial shareholder" of the Company. In addition Mr Cohen is employed in an executive capacity by the Company.

Mr Garrington is employed in an executive capacity by the Company.

Mr Conway is a director of AEPFSH and Mr Tscialas is a director of Allco Equity Partners Ltd and both are representative directors for AEPFSH shareholding in IBA Health Group Ltd. As AEPFSH is a "substantial shareholder", these directors are not considered independent under the ASX Recommendations.

Professor Jackson, Messrs Sherlock and Wise are all considered independent in terms of the ASX Recommendations. Details of their share and option holdings are set out on pages 83 to 84 of this report.

AEPFSH has a substantial shareholding in the Company. It has a significant interest in the Company's continued success. It is entitled to appoint two directors to the Company resulting from its capital contributions to the Company. Therefore it is appropriate that AEPFSH be well represented on the Board. In addition, the Board believes that Mr Cohen is an appropriate person to be Executive Chairman due to his extensive knowledge of the activities of the Company and its business and the industry sector in which the Company operates.

The Company recognises that the ASX Recommendations state that a listed company should have a majority of directors who are independent and that the Executive Chairman should be an independent director. The Board as currently comprised, does not comply with these recommendations. Notwithstanding the ASX Recommendation that the majority of the Board should be made up of independent directors and the Executive Chairman should be an independent director, the Board considers that the independence of directors is reflected by their capacity and intent to put the best interests of the Company and its shareholders ahead of all other interests, and that they are capable of exercising objective, independent judgment.

IBA believes the Board, as currently composed, has the necessary skill and motivation to ensure that the Company continues to perform strongly, notwithstanding that its overall composition does not meet the ASX Recommendations.

The Board maintains strict protocols to ensure that any potential or actual conflicts of interest and duty are properly identified and managed, and to ensure directors act in accordance with their fiduciary responsibilities. Each director has also agreed with the Company to comply with the Company's established policy on dealing in shares in IBA and the relevant disclosure requirements.

#### **Directors' independent advice and access to Company information**

With the consent of the Executive Chairman, directors or committees of the Board may seek external professional advice, as considered necessary, at the Company's expense. Each director also has the right of access to all relevant Company information and to the Company's executives.

#### **Board committees**

The Board has established two committees of directors, the Audit and Compliance Committee and the Remuneration Committee, to carry out certain tasks. Each committee has a documented charter approved by the Board, copies of which can be found on the Company's website, [www.ibahealth.com](http://www.ibahealth.com).

The Board does not believe that additional committees are appropriate or necessary for IBA in its current form. For example, the Board has not created a formal nomination committee. One of the tasks often delegated to a nomination committee is that of establishing systems for performance appraisal and evaluation. This has been delegated to the Remuneration Committee.

The Board does not have a formal risk management committee because the Board believes that risk management is a significant responsibility of the entire Board and, in first instance, risk management policies and procedures are specifically included in the charter of the Audit and Compliance Committee.

#### **Audit and Compliance Committee**

The Audit and Compliance Committee consists, at the date of this report, of the following directors:

- Mr Anthony Sherlock (Chairman)
- Mr Don Conway
- Mr Peter Wise

The role of this committee as described in its charter is to:

- Oversee and appraise the quality of the audits conducted by both the Internal and External Auditors;
- Provide, through regular meetings, a forum for communication between the Board, Senior Management and both the Internal and External Auditors;
- Review financial information prior to approval by the Board for presentation to shareholders and/or release to regulatory bodies;
- Oversee and determine the adequacy of the IBA's operating and accounting controls;
- Oversee and determine the adequacy of IBA's compliance management strategies, policies, systems and procedures;
- Review for consistency, wherever appropriate and practical, the policies and procedures of IBA and

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facilitate the proper discharge of IBA Group Financial Reporting requirements and responsibilities;

- Assist in the preparation of the governance statements and policies for incorporation on the Company's website, public documents and financial statements.

The committee meets at least four times each year and reports to the Board following each meeting. The member attendance at meetings of the committee during the year is set out on page 24.

The Company's external auditor, PKF is invited to attend the meetings of the Audit and Compliance Committee, as is the Chief Executive Officer. All directors are permitted to attend meetings of the Audit and Compliance Committee if they so wish.

## Performance evaluation

The Board undertakes an annual self-assessment of its collective performance, the performance of individual directors and of its committees. This assessment is ongoing throughout the financial year. Furthermore, the performance of the Chief Executive Officer is reviewed annually by the Remuneration Committee and the performance of other key executives is reviewed annually by the Chief Executive Officer against predetermined goals and competencies.

## Financial reporting

The Executive Chairman and the Group Finance Director provide the Board with written confirmation that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial position and operational results and are in accordance with relevant accounting standards. The Company adopted this reporting structure for the year ended 30 June 2008.

## Remuneration Committee

The Remuneration Committee consists, at the date of this report, of the following directors:

- Mr Robert Moran (Chairman)
- Mr Gary Cohen
- Mr Anthony Sherlock
- Mr Ian Tsicalas
- Mr Peter Wise

The role of the committee as described in its charter is to review arrangements for and make recommendations to the Board on:

- Appointments to the Board and to senior executive roles;
- All human resources policies proposed or applying within the Company;
- The performance of the senior executives;
- The remuneration packages and policies applicable to the Executive Chairman, non-executive directors and senior executives and annual salary reviews throughout the Company;
- The incentive plans;
- The retirement and termination entitlements of the Executive Chairman, non-executive directors and senior executives;
- Company-wide training programmes;
- The Charter of the committee;
- Review changes in best practice, legislation and market trends in respect of employment and remuneration matters on which the committee makes determinations or makes recommendations to the Board;
- Consider other topics as nominated by the Board from time to time.

In particular, the committee has reviewed the remuneration and incentive structure to make the remuneration for management more performance-based and to align management's interests more closely with those of the Company's shareholders through growth in shareholder returns. Further details regarding the structure of directors' and executives' remuneration are contained in the Directors' Report. Non-executive directors are remunerated by way of fees and currently do not participate in schemes designed for the remuneration of executives other than options. They do not receive bonus payments.

The committee meets at least twice a year and reports to the Board following each meeting. The member attendance at meetings of the committee during the year is set out on page 24.

## Risk assessment and management

Management of risk is an essential element of the Company's strategy. The Audit and Compliance Committee has the responsibility of ensuring that the

policy framework and control mechanisms are in place to identify, assess and control material risks across the Company including reporting to the Board on the risk management issues. The Company is responsible for implementing policies and procedures to manage those risks.

The Executive Chairman and the Group Finance Director provide the Board with written confirmation that:

- The statement given to the Board on the integrity of the Company's financial statements is founded on a sound system of financial reporting, risk management and internal compliance and control that implements the policies adopted by the Board;
- The Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

The Company adopted this reporting structure for the year ended 30 June 2008.

#### **Code of conduct**

As part of the Board's commitment to the highest standard of conduct, the Company has established protocols to deal with various issues, including:

- Conflicts of interest;
- Employment practices;
- Fair trading;
- Health and safety;
- Confidentiality;
- Relations with customers and suppliers.

In addition, ethical and responsible decision making relies on a strong control environment to provide discipline and structure. The control environment of the Company focuses on having clear policies and procedures, a commitment to competence and development of employees, the responsible assignment of authority and accountability, and the general control awareness of senior management and employees.

#### **Share trading policy**

Since 2001, the Company has had a formal share trading policy in place applicable to directors, both executive and non-executive, to senior managers and to trading by their family members and associates. The policy restricts directors and senior managers from acting on price-sensitive information that is not generally available to the

market. In addition to this requirement, the Company prohibits directors and senior managers from engaging in short-term trading.

The share trading policy excludes trading in the four-week period before, and three days after, the announcement of the full-year and half-year results and the Annual General Meeting. Subject always to the share trading policy, directors and senior managers may trade in the Company's shares at other times.

#### **Continuous disclosure and communication with shareholders**

The Company has a procedure in place to ensure that comprehensive and accurate market-relevant information and, in particular, price-sensitive information, is released in a timely and controlled manner. The Company Secretary has been nominated as the person responsible for communications with the ASX. This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX listing rules and overseeing and co-ordinating information disclosure to the ASX, analysts, the media and the public.

If information is disclosable, an announcement is prepared and sent, via the Executive Chairman's office, electronically to the ASX. After receipt is confirmed, the announcement is posted on the Company's website ([www.ibahealth.com](http://www.ibahealth.com)) and sent electronically to shareholders who have provided the Company with their email addresses. When analysts are briefed on aspects of the Company's operations, the material used in the presentation is released to ASX and posted to the Company's website simultaneously.

The Company aims to keep shareholders informed of its performance and all major developments in an ongoing manner. Information is communicated through:

- The Annual Report, which is distributed to all shareholders (unless specifically requested otherwise);
- The Half-Year Report;
- Other correspondence regarding matters that affect shareholders, as required. The engagement partner of the Company's external auditor PKF has been requested to attend the Company's Annual General Meeting and is available to answer questions from shareholders about the external audit.